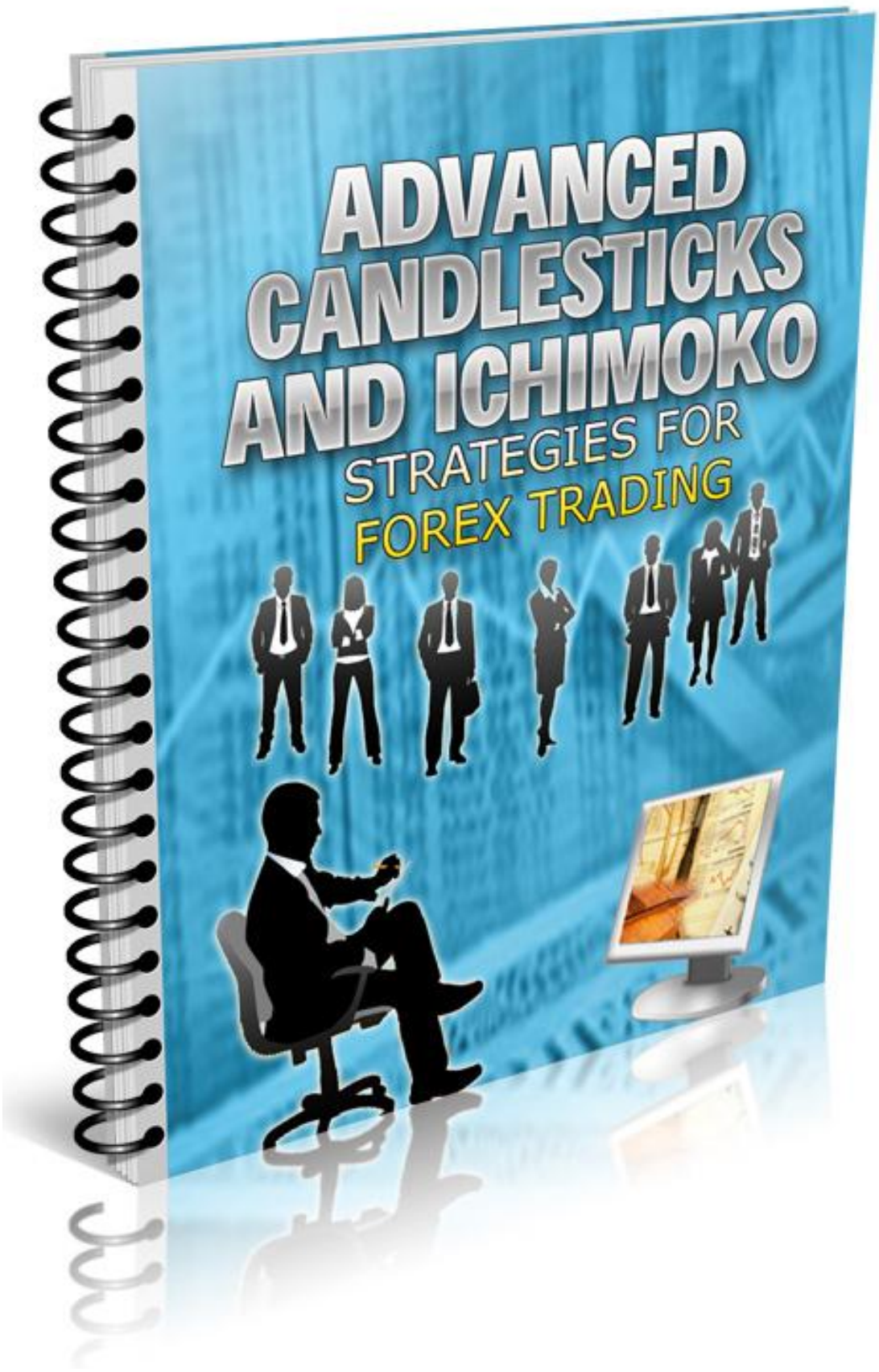

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INTRODUCTION

Ever since the rapid development in internet world, online trading in foreign exchange is getting more and more popular, with narrower spreads provided by majors internet brokers, countless numbers of investors have been attracted to participate in day to day forex trading.

Methods used by individual investors to analyze the forex markets and make trading decisions include fundamental analysis and technical analysis. In view of the enormous trading volume (way beyond all stock markets of the world, forex markets trade about US$ 4 trillion per trading day), we believe the forex market is a perfect place (some consider the forex market as the closest example of a perfect market condition described in economics) to apply technical analysis to enhance your trading profitability.

In this E-book, in addition to basic technical analysis techniques such as trend analysis, pattern recognition and Fibonacci percentage of retracements and projections, we would like to focus on two technical charting tools both invented by Japanese people, the Candlesticks and the Ichimoku Kinko Hyo. As we find that the combination of these two Japanese charting tools with traditional technical analysis methods works amazingly well in forecasting the market movements especially in recent very volatile market condition.

We will use recent examples in describing how to use these tools to formulate objective trading strategies. Besides, real life examples are being used to show the applications as we have been publishing Ichimoku and Candlesticks trade ideas in Actionforex.com since early 2009, providing trading strategies updates on USD/JPY, EUR/USD, USD/CHF, GBP/USD, AUD/USD and EUR/JPY (2 times a day) with clear entry levels, profit objectives (from 100 points to 150 points) and stop-loss (50-60 points).

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CHAPTER 1
Chart Analysis in Currency Trading

1.1 - Importance of chart analysis in currency trading

Basically, there are two major types of analyzing methods in predicting price or movement of currency in the forex market, i.e. Fundamental analysis and Technical analysis / chart analysis. Fundamental analysis involves the studies of the economic conditions of the country, for example the balance of trade, current account, GDP, unemployment rates and inflation index, government monetary and fiscal policies, interest rates, even social and political forces. Some investors rely on their analyses on these economic indicators, news and announcements to set their trading strategies.

Whilst we must admit that all these financial and non-financial factors are the actual reasons behind most the long term currency fluctuations, in other word is the reasons or causes about the movements, when it comes to short-term day to day trading, the role of technical analysis becomes much more important (and what is actually the reason does not really matter). In technical analysis, traders make forecast of price movements or future market directions by studying various types of charts of past market actions, the purpose of technical analysis is to identify a trend in its early stage so as to trade in the direction of that trend. Technical analysis is a very powerful method of forecasting, as the analyst is not influenced by prevailing market sentiment and he can make a more objective judgment of which way and how far the price is likely to move in the future.

Since forex market is the largest financial market in the world and is also highly leveraged, even minor price movements can have a dramatic effect on your trading performance, so traders need some effective plans and methods to set precise entry and exit points and this is also another very important aspect in technical analysis. By using certain technical indicators (e.g. moving averages or Ichimoku) and calculation techniques (e.g. Fibonacci percentage of retracements and projections) when formulating his/her trading strategies, one can identify more objective levels for setting entry, exit and stop-loss prices, which fundamental analysis is not capable of in providing such levels.

In short, technical analysis is not only an effective method in price-forecasting process helping traders to predict future market directions, it is also an indispensable analysis technique in order to find clear and precise timing and level of entry and exit in day to day trading, therefore, chart analysis or technical analysis is a very valuable principle in formulating trading strategies.

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1.2 - Basic chart analysis

Chart analysis also known as technical analysis is the study of market action, by using price charts (e.g. line chart, bar chart or candlesticks chart) to examine the past movements and level of supply and demand in the underlying market, to forecast future price direction or trend. Although technical analysis cannot tell you what are the reasons behind the moves (as it really does not care about the so-called value of the underlying product), it is a useful tool to help investors to predict where the price of certain stock or currency pair will move.

Whilst there are so many different types of technical analysis methods, such as chart patterns, technical indicators and oscillators, candlesticks and wave theory, all technical analysis philosophy are utilizing history price and volume data in order to study the supply and demand, hence in the field of chart analysis, it is based on three assumptions:

1. The market price discounts everything

Some people consider technical analysis is simply a short cut form of fundamental analysis as it assumes that all relevant information (e.g. fundamental factors of a country's economy) is already reflected in the price actions, most die hard technical analysts believe it is just not necessary to analyze the fundamental factors as at any given time, the overall economic elements and market psychology are all discounted into the past movements in price, which makes the job of studying fundamentals redundant and just pay attention to the relationship between the supply and demand will be enough.

2. Prices move in trends.

Chart analysts believe that price movements follow trends, markets tend to trend up, down or sideways, therefore, one major task in technical analysis is to identify the market trend at an early stage as once a trend has been established, the future price movements are more likely to be in the same direction as the prior trend than the opposite.

3. History Tends To Repeat Itself

As all the participants in the financial markets are human, technicians also believe that it is a human behavior that they collectively repeat what action they took preceded themselves. Since investor behavior repeats itself so often, chartists tend to think that certain chart pattern will develop and end with similar result. For example, after a continuation pattern is formed, the previous trend will resume in the same direction due to the repetitive nature of price movements and market

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participants tend to make a consistent reaction to similar market stimulations over time.

In short, technical analysis or chart analysis tries to understand the emotions in the market by studying past price action instead of the cause of the movements.

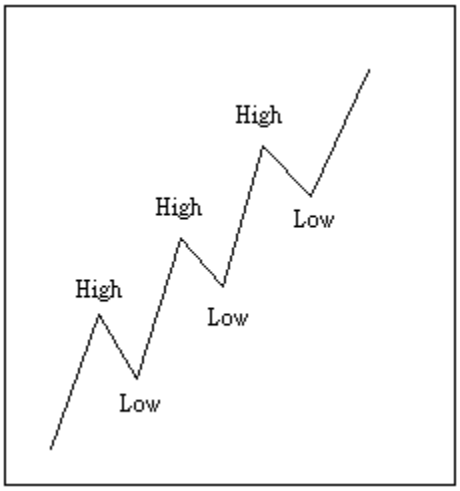
There are numerous technical analysis methods but after discussing some basic charting tools like trend analysis, support and resistance, pattern recognition, we will keep our focus on the application of Fibonacci retracements and projections; use of Candlesticks chart pattern; the Ichimoku Kinko Hyo and finally how to put them all together to form an objective trading strategy in order to enhance profitability.

1.2a) Trend analysis

There is a very popular phrase that investors use in the financial market - "Trend is your friend", so one can see the importance of identifying the market trend. Actually, this is one of the most basic yet essential concepts in chart analysis, in fact the concept itself is quite simple and easy to understand. In general, there are 3 major types of trend and they are:

Uptrend:

A series of higher highs (each successive peak/resistance must be higher than the preceding one) and a series of higher lows (each successive trough/support must be higher than the preceding one).



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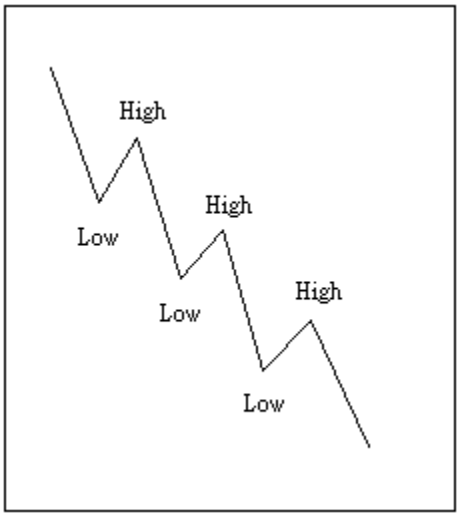
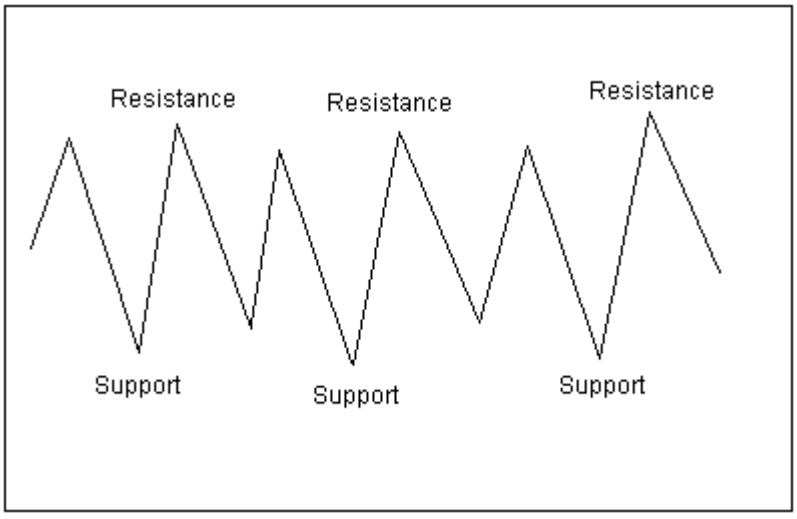
Downtrend:

A series of lower lows (each successive trough/support must be lower than the preceding one) and a series of lower highs (each successive peak/resistance must be lower than the preceding one).



Sideways

A sideways trend (aka horizontal trend) is in a certain period of time when price traveling between levels of support and resistance.



Whilst it is quite easy to understand the concept of trend, one must keeps 2 things in mind in trend analysis: To identify the market trend at an early stage, get in as soon as possible and stay with the trend as long as possible.

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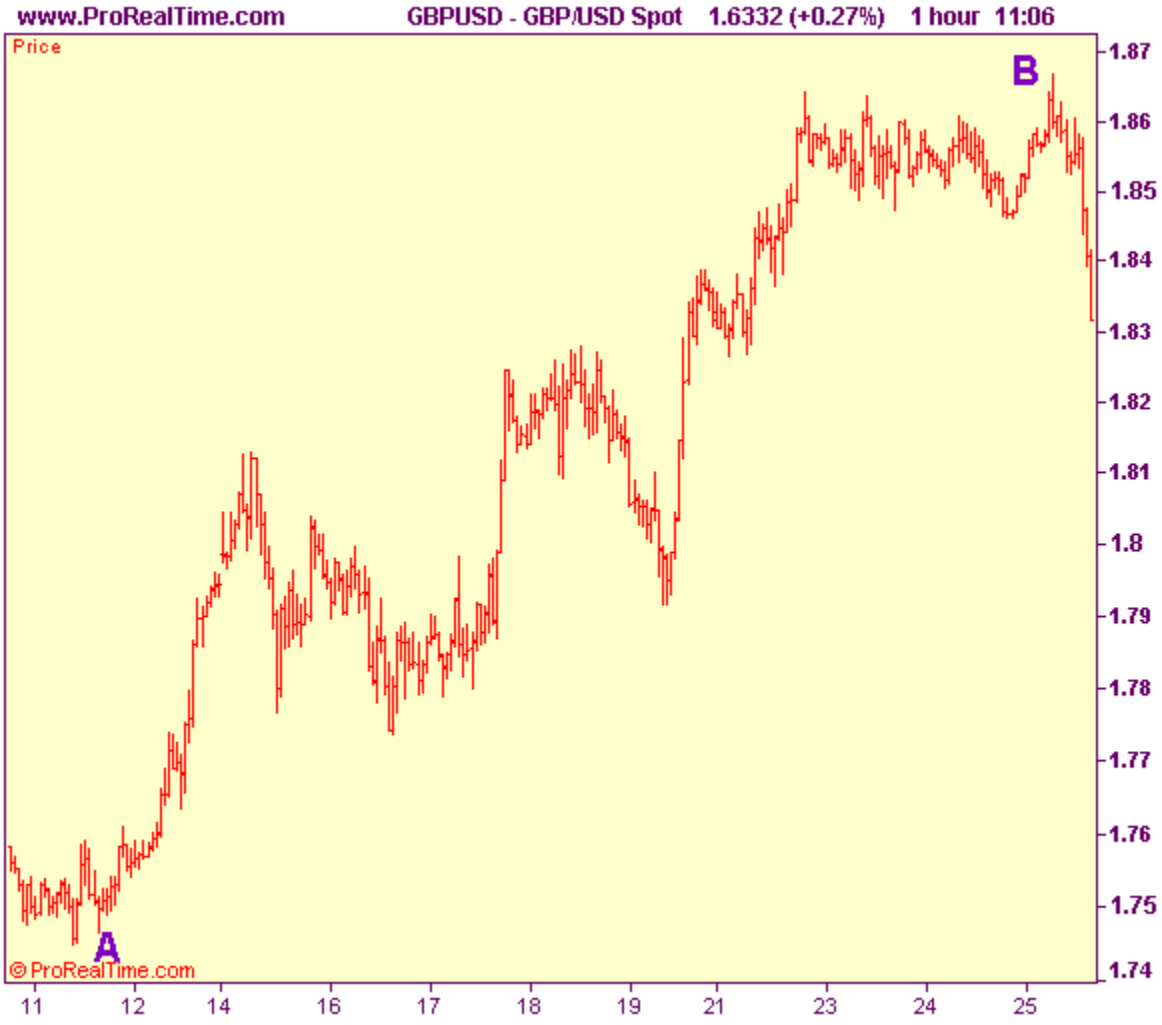
To identify your own trading time frame.

Let us look at the following chart:



From point A to point B, this is an obvious uptrend, with a series of successive higher highs and higher lows, a short-term or intra-day trader might look to enter a long position once the uptrend is detected (most likely after the second set of high and lows were formed). Having said that, the above chart is an hourly chart and if we look at the daily chart below:

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The co-called uptrend on the previous chart is merely a rebound in a major downtrend (last for almost a year) and a position taker should use this as a selling opportunity to join the subsequent selloff which brought cable to as low as 1.3500.

Therefore, it is very important for a trader/investor to identify his/her own trading time frame so that he/she can select the appropriate chart for doing analysis.

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A short-term player who takes position once or twice a day and may run position for a day or longer shall focus on an hourly chart, as this chart will cover the price action over last 1-2 weeks and use daily chart to identify the market trend. Whilst for an intra-day trader, he/she may use the 15 minute chart to analyze the market and use hourly chart to decide the major trend. For long term investors, one shall focus on weekly and monthly charts to spot long-term trends and forecast long-term price movements. We highly recommend one should use the approach of combining a long-term and short-term charts (a multi-time frame approach) as the long-term charts can provide a broader perspective of the historical price movements whilst the more near term chart can be used to fine tune the entry and exit levels.

1.2b) Support and Resistance

There are many tools available to help in identifying the market trend, some of them can also assist in pre-empting a change in trend. One of these tools, which is perhaps the simplest and most valuable one, is trend line. However, before we go into details of the use of trend line, one must have a better understanding of the concept of support and resistance.

Support

A support is a price level where buying interests (demand) exceeds selling pressures (supply), when price is going down, decline shall be contained here and price tends to find support and is more likely to rebound off this level instead of breaking it. However, once this level is broken, i.e. supply exceeding demand, then the fall should continue until it finds another support level.

Resistance

A resistance is the opposite of a support. It is a price level where selling pressure (supply) exceeds buying interest (demand), when price is moving higher, rise shall be capped here and price tends to meet obstacle and is likely to retreat from this level rather than breaking it. However, once this level is penetrated, i.e. demand exceeding supply, then the upmove should continue to head north until it finds another resistance level.

Understanding support and resistance levels

The more often a support level or resistance level is tested (but not broken), the stronger and more significance is this particular level.

The more recently the support or resistance level is formed, the more important is the level in terms of impact on the subsequent market movements.

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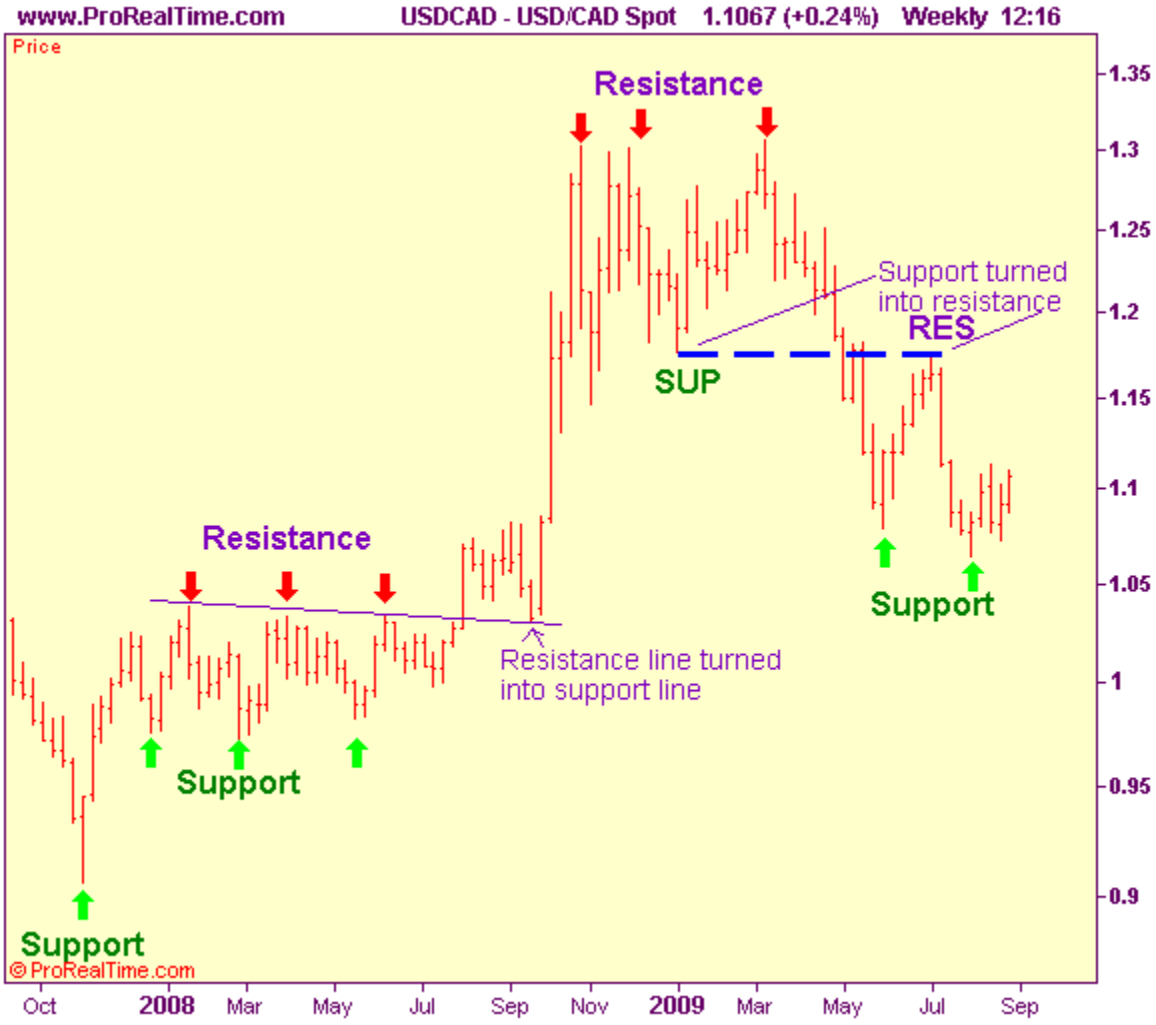
Support and resistance levels reverse roles once they are broken. If a price drops below a support, that level often turns into a new resistance level and vice versa. The logic is that the break of support signals the supply have overcome demand and therefore, if the price bounces back to this level, there is quite likely to see an increase in supply, and at the same times those who have bought before the support was broken tend to look to square their position on such a move, hence increasing supply as well. Similar principle also applies to the concept of resistance turning into support.



Not only a support can turn into a resistance as you can see in the chart above, it could also apply to support line and resistance line. By joining several resistance points, one can get a resistance line and once this line is penetrated, it would turn into a support line.

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Trendline

One of the basic assumptions in Technical Analysis is that prices move in trend and the use of trendline is an important tool in chart analysis not only to indentify trend but also to pre-empt a change in trend.

A trendline is a diagonal straight line formed by connecting two or more price pivot points (support or resistance levels) and then extending it into the future (right limit of the chart). An up trendline occurs in a rising market with a positive slope and is drawn by joining the support points whilst a down trendline appears in a falling market with a negative slope and is drawn by joining several resistance points. The more pivot points that the trendline is connected with; the stronger is this support or resistance line going to be.

Resistance trendline (Down trendline)

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Support trendline (Up trendline)

One function of trendline is to track the trending move, therefore, one can use it to estimate entry and exit timing as up trendline and down trendline provide support and resistance respectively, hence one can use an up trendline to join the upmove and put stop-loss below the line. It is quite common to use a break of trendline to indicate a change in direction, e.g. a break below the up trendline signals the condition of increasing net demand (demand exceeding supply) has altered which inevitably imply a change in trend is imminent.

In the above chart, it illustrates another feature of trendline is that once the support trendline is broken; it would also become a resistance line and vice versa for a resistance trendline.

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1.2c) Pattern Recognition

One very traditional use of technical analysis is the chart patterns which can be categorize in continuation patterns and reversal patterns and they all have predictive function.

From time to time, market forces of supply and demand struggle among each other, basically the chart patterns is a pictorial record to reveal all buying and selling activities and the patterns show the relationship between the various support and resistance. By studying different patterns, one can gauge which side of the forces, bulls and bears, is winning, hence help to predict the next possible direction.

Chart patterns are extremely useful and essential to keep investors or traders on the right side of the market and can be used in both short term and long term forecasts. There are 2 major types of chart patterns:

Continuation patterns

A continuation pattern usually represents temporary pauses in the existing trend and most likely the pattern will end with a resumption of the previous direction. In general, continuation patterns take less time to form when comparing to reversal patterns, however, it is more common to see continuation patterns than reversal patterns (along a trend, there could be several continuation patterns whilst only one or maximum two reversal patterns will appear).

There are several commonly found continuation patterns, including triangles, flags, pennants, rectangles and the triangle pattern is considered the most reliable among the other continuation patterns. There are also few different triangles named according to their appearance, they are symmetrical triangle, ascending triangle and descending triangle, here we would focus on the symmetrical triangle.

Triangle

The symmetrical triangle normally forms during a trend and is exhibiting a temporary pause of the prevailing move which will eventually continue on its existing direction. The pattern is characterized by a contraction in price range and there are usually at least two lower reaction highs and two higher reaction lows inside the pattern, hence when these resistance points and support points are connected, the lines converge which shape up as a the symmetrical triangle with the widest part at the beginning and narrowing over time.

During the formation of the pattern, sideways trading takes place with price fluctuating between the two contracting lines, the resistance line and the support line. In a downtrend, the support line becomes the signal line or the trigger line

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whilst in an uptrend, the resistance line becomes the signal line. Once this line is broken, this would confirm the end of the formation and price should head towards the direction of the prevailing trend.

The time of this breakout should ideally occur between the 50% to 75% of the time span of the entire pattern (i.e. horizontal distance measuring from the start of the pattern to the point where the 2 lines meet at the right, the apex), the timing of the breakout will affect the subsequent impact, if it occurs before halfway, this means it is too premature (not enough time for the formation). If the breakout takes place too close to the apex, then it may be an insignificant one and the effect tends to be limited.

In a downtrend, once the support line (aka signal line) is broken, this provides an early confirmation of the resumption of the decline.

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While triangle is considered as a continuation pattern, it is highly recommended one should not jump the gun and wait for the breakout to take place before entering the market because occasionally the triangle may initially appear as a continuation pattern but ended up being a reversal pattern just like the chart shown below.

Other continuation patterns include flags, pennants and rectangles, which can be commonly found along a trending move. Flags and pennants are basically considered short-term pattern, as a brief pause or small consolidation before the previous trend resumes. These patterns are mostly preceded by a sharp rise or decline and usually happen at the middle of the trend.

No matter how these patterns resemble, they all share a common characteristic, a near term counter trendline (slope against the trend) appears in the pattern which

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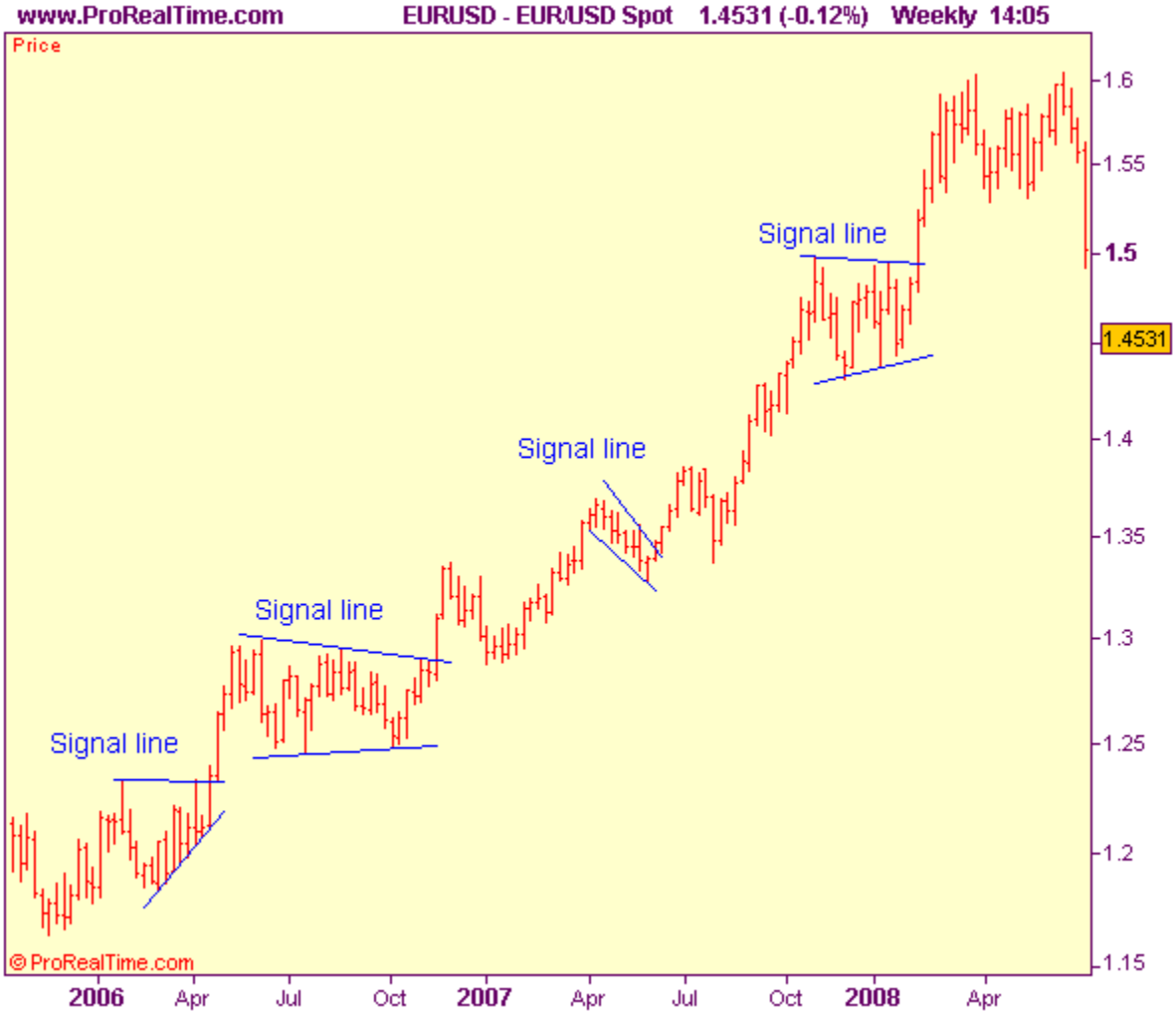
serves as the signal line or trigger line. The break of the signal line confirms the end of the continuation pattern and price should resume.



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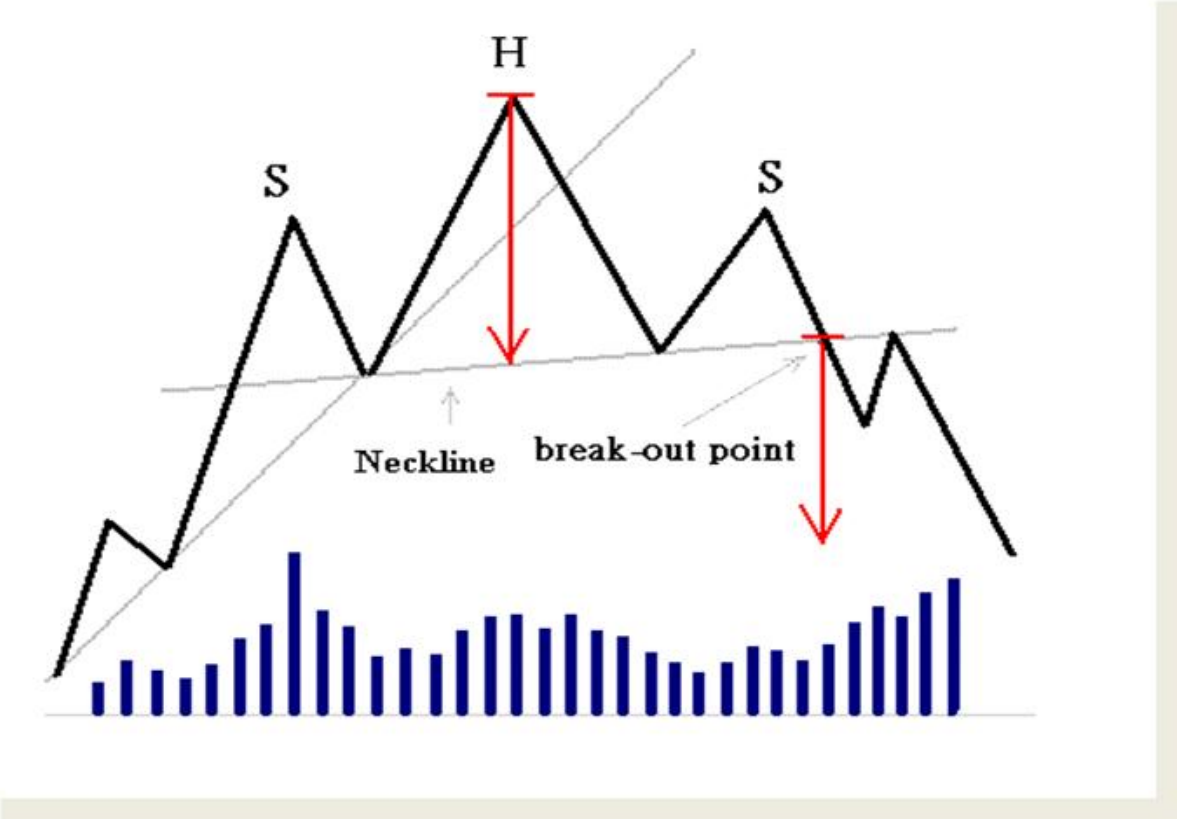
Reversal patterns

A reversal pattern is a chart formation that indicates a market top or a market bottom, the pattern usually goes through a sideways period and upon breakout of the pattern there will be a change in direction or a turnaround in the current trend.

Among all the reversal patterns, the Head and Shoulders / Inverse Head and Shoulders is probably the best known and most reliable one. The following diagram shows how the Head and Shoulders top pattern is formed (same principle applies to the Inverse Head and Shoulders pattern).



As you can see three consecutive peaks are formed and are named according to the appearance (resemble a head and two shoulders). This reversal pattern must go through several steps before completion, they are:

A break of a major trendline.

Price held above a previous support and rebounded, formed the neckline as a signal line.

Another reaction high was formed but price stayed below previous high (peak).

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Break of the neckline confirms the top formation.

Occasionally price test back the neckline (now should act as resistance line), known as return move and this line should hold, bring the subsequent selloff.

Volume should play an important role in confirming the pattern, highest level of volume shall appear at the left shoulder, then volume dropped at the peak (Head) and the right shoulder have lowest volume. However, volume would pick up on the final decline after the break of the neckline.

However, as it is quite difficult to justify the volume level in forex market, one can use technical indicators or oscillators to help confirming the pattern. In most cases, the top should be accompanied by bearish divergences, as illustrate at the following chart:

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It is important to remember that it occurs after a trending move and usually indicates a major trend reversal upon completion. In a more deal situation, the left and right shoulders should be symmetrical but it is not a necessary condition. The identification of neckline support is essential and it is preferably to be a more horizontal than a steeper slope line.

Other common reversal patterns include Double Top / Bottom, Round Top / Bottom, Spike Top / Bottom, Falling Wedge and Rising Wedge, most of them have a common characteristic is that, there should be a signal line (similar to the neckline in Head and Shoulders) for confirmation of the top or bottom formation and upon the penetration of this line, which signals the start of a new trend pointing to the opposite direction.

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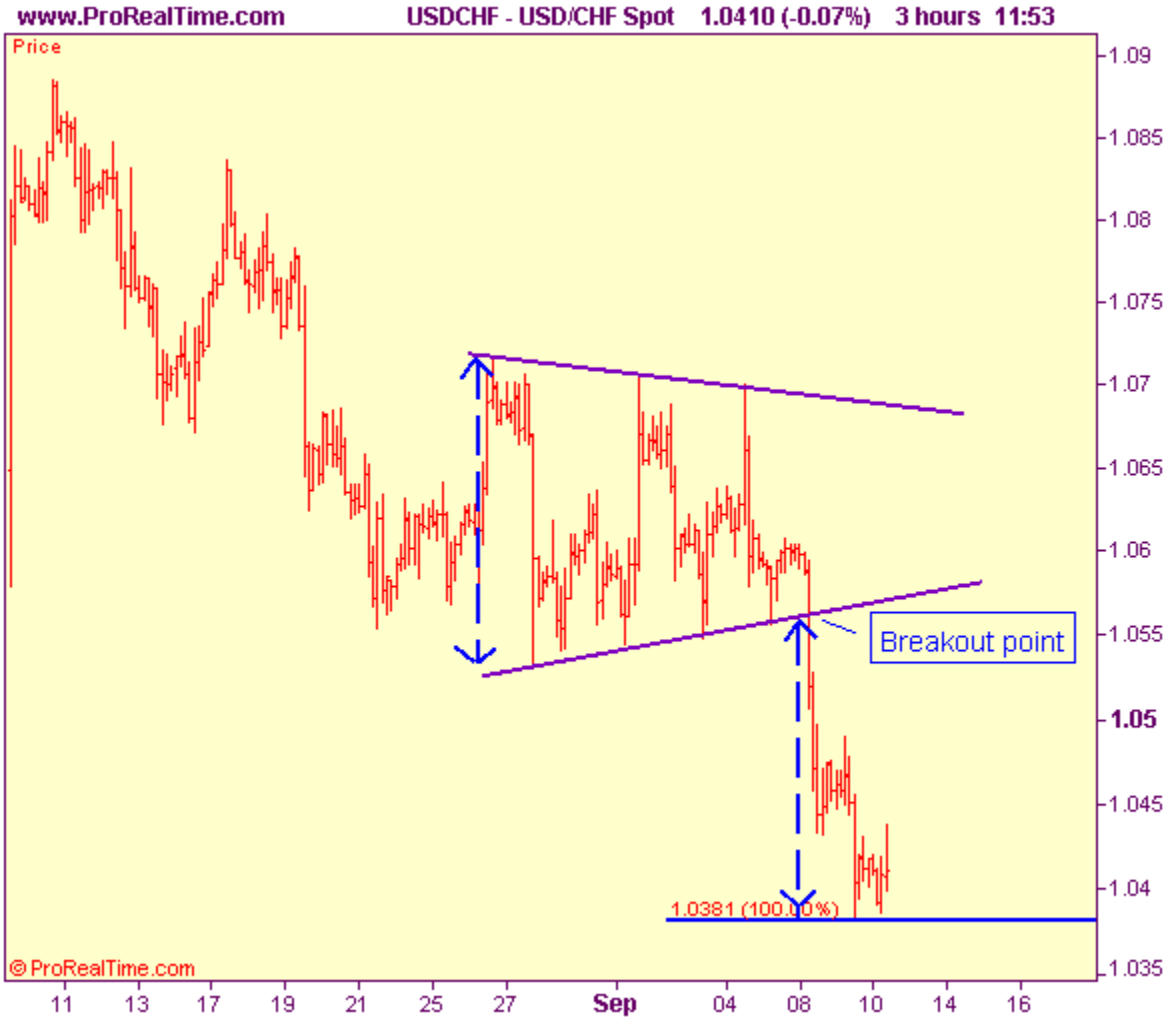
1.2d) Measuring Techniques

A very important and useful feature in chart patterns analysis is the measuring techniques, which could provide price objectives or targets after the break-out of the signal line.

The measuring technique in a Triangle pattern is that to measure the height of the triangle at the widest point (far left) of the pattern and project that vertical distance from the break-out point.



To measure the price objective of a Head and Shoulders Top/Bottom formation, one should measure the vertical distance from the top/bottom to the neckline and then project the length downward (top) or upward (bottom) from the break-out point. As this should mark the major change in market direction, so this equality or 100% projection of the height from the top to the neckline should be considered as the minimum upside or downside target.

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Measuring technique on Double or Triple Top/Bottom is similar to Head and Shoulders, also measuring the vertical distance from the top to the neckline, then project the height from the point where the neckline is broken.

Having said that, any of these price projection targets, for both continuation and reversal patterns, should serve as a general guide and one should take into consideration of other factors, such as previous chart support and resistance, plus the indicators' readings (whether the market is an overbought / oversold condition or is there any divergences in price and oscillators).

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CHAPTER 2
Fibonacci retracements & projections

2.1 Retracement

Even in a trending market, either up or down, price does not move in a straight line, there will be numbers of short-term countertrend price movement known as pullbacks and corrections in different magnitude before the prevailing trend resumes.

Experienced traders know that in order to enhance profitability and make a trade less risky, the best way is to enter a position at the end of the correction. Therefore, technique in predicting the retracement level becomes extremely useful in formulating a trading strategy and technical analysts consider the Fibonacci percentages are very effective ways to locate the possible retracement level especially when the actual chart support and resistance levels are too far away.

Leonardo Fibonacci was an Italian mathematician who first observed certain ratios of a number series which can describe the natural proportions of things in the universe. The Fibonacci numbers are the following sequence of numbers: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610, 987 .....

The first two Fibonacci numbers are 0 and 1, then the Fibonacci sequence is formed by getting the sum of the two previous numbers to obtain the next number.

The number sequence generates some mathematical relationship and the most well known and widely used is the ratio of any number to its next higher number which approaches a constant value of 0.618 (e.g. 13/21 is 0.619, 55/89 is 0.6179, 377/610 is 0.61803 and the higher pair of number you get, you will have a result closer to 0.618). Another percentage is the ratios of alternate numbers which approaches a constant value of 0.382 (e.g. 13/34 is 0.3823, 55/144 is 0.3819, 377/987 is 0.382, again the higher pair of number you use, you will get a result closer to 0.382). In addition, 0.382 is also the inverse of 0.618 (1-0.618=0.382). Finally is the ratio of 0.5, which only occurs between the relation of the 2 numbers 1 and 2, nevertheless, this ratio is also considered as one of the very important Fibonacci ratio especially in technical analysis.

These Fibonacci percentages / ratios, 0.382, 0.5 and 0.618 can be very useful especially for swing traders in order to identify the pivot points on the chart. In an uptrend, whenever a pullback takes place, which should be treated as golden opportunity to enter long position and these percentages can be applied to predict the retracement level (i.e. where you can set your entry point) or identify Fibonacci

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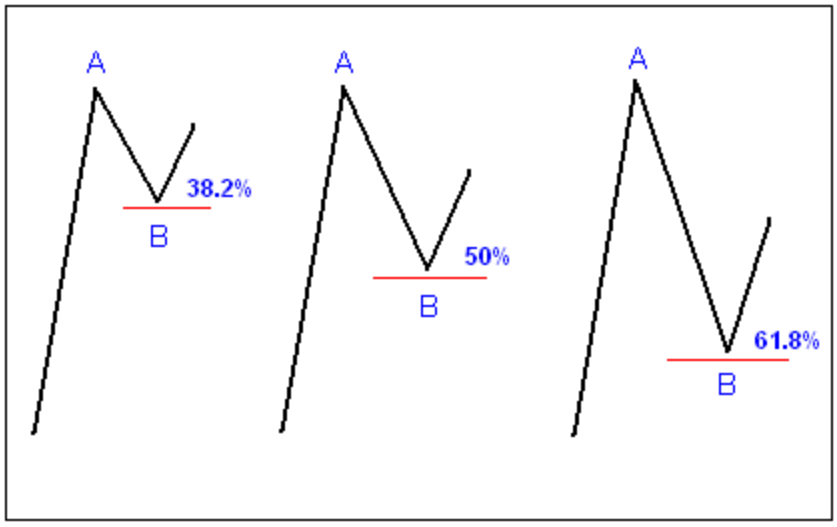
support level which should contain the correction (i.e. where you can put your stop-loss). The following diagram explains the retracement patterns of 3 major Fibonacci percentages and same principle also applies to downtrend.



In a rising market, after meeting certain resistance level, point (A), when correction unfolds, it is quite common for price to find support at these three Fibonacci retracement levels. In a fast market, pullback tends to be shallow and normally only reaches 38.2% of the nearest upmove before turning north again. Some people consider this as the first line of defense, once this level is penetrated, this implies a deeper correction of the underlying trend has commenced.

Another well known percentage is the 50 percent retracement, no matter is a primary, secondary or intermediate trend, correction against a major uptrend often retraces approximately 50% of the prior uptrend as it is quite common for half of the participants to take profit after certain temporary top is formed.

Last but surely not least, is the famous 61.8% Fibonacci percentage, in a weak trend, it is not uncommon to see this percentage of correction, this point is also considered as the maximum retracement level which is allowed if the prior trend is going to resume. Once this level is broken, a break of 61.8% retracement, it usually warns of a reversal rather than a retracement is taking place.

Whilst there are no fixed rules in applying Fibonacci retracement, we do have some useful guidelines which should help enhancing the accuracy in predicting the pullback or correction levels.

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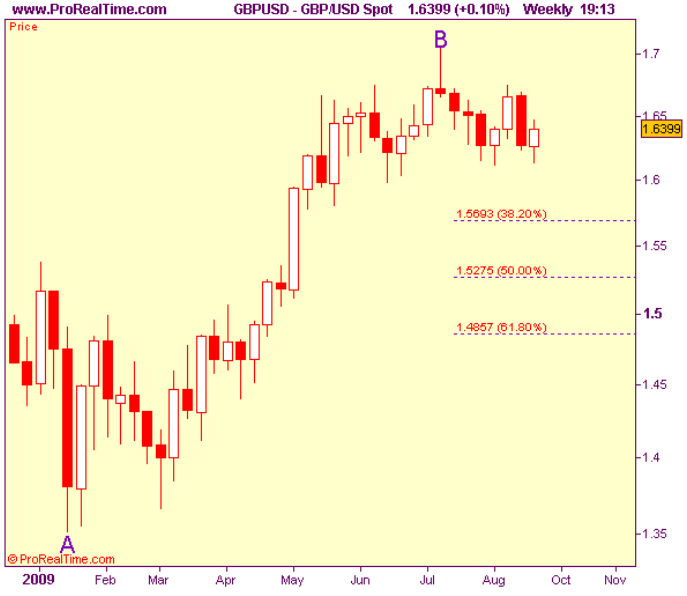
Guideline 1: To identify the High and Low first

Before you could start calculating Fibonacci retracements, you must first identify the market high and low prices. Generally many people consider using the longer term historical high and low may help identifying significant support and resistance levels. However, for short term trading, using the major high and low might not have too much help as even you take the smallest percentage (e.g. 23.6% or 38.2%) could still be too far to reach, so it is not practical to use it as an entry point.

In an uptrend, when ever pullback takes place, there is only one temporary top (high) but there are numbers of reaction low, therefore, picking the appropriate intermediate low would greatly improve the chance to predict the pivot point. It is more like an art than science in choosing this so-called appropriate intermediate low, we believe the Elliott Wave Theory can do the job pretty well (we will discuss this in details in our next E-book).

Guideline 2: Plotting the Fibonacci retracement levels

After selecting the relative high and low points, this is the time to draw the Fibonacci percentage retracement levels on the chart. In a rising market, the measurement should be started from the low point (i.e. 0%) to the high point (i.e. 100%), then draw 38.2%, 50% and 61.8% and 38.2% retracement should be the first line of correction target, and vice versa for a falling market.



The above chart is the correct way of drawing Fibonacci retracement levels (from point A to point B) on the chart, however, we have come across some people who draw these retracement lines as the follow chart which we do not recommend.

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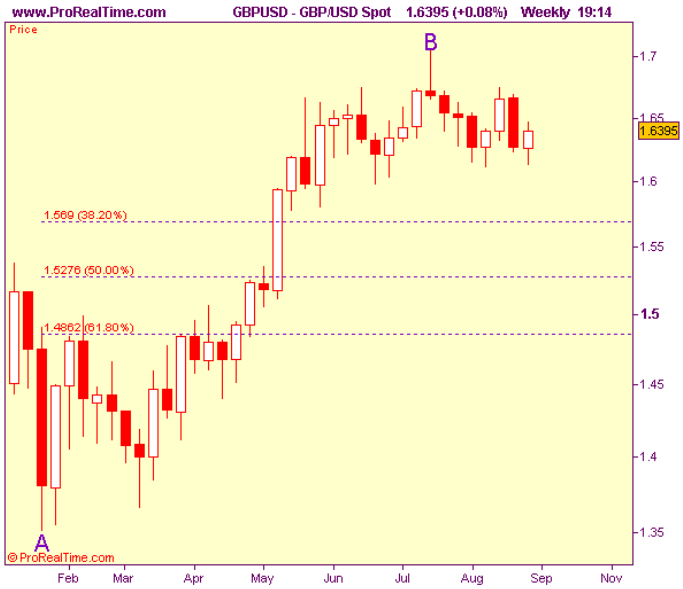

This is not the proper way as it will make the chart messy, therefore, try to keep those lines in untouched area, usually in the far right of the chart.

Guideline 3: Take reference of Historical Behavior

In addition to normal Fibonacci percentage expectation, e.g. 38.2% for fast market, one should also observe what had happened before and take it into consideration. If all along the uptrend, most previous pullback took place reached 50% before finding renewed buying interest, then one shall reasonably adjust the pivot point prediction accordingly.

Guideline 4: Always have a Plan B

Once a temporary top is formed, we normally expect 38.2% retracement before upmove resumes, however, one should also set a percentage (e.g. 50%) which would abort this scenario and suggest either a deeper correction is going to take place or a reversal is in progress, then at which point would signal price is heading another direction.

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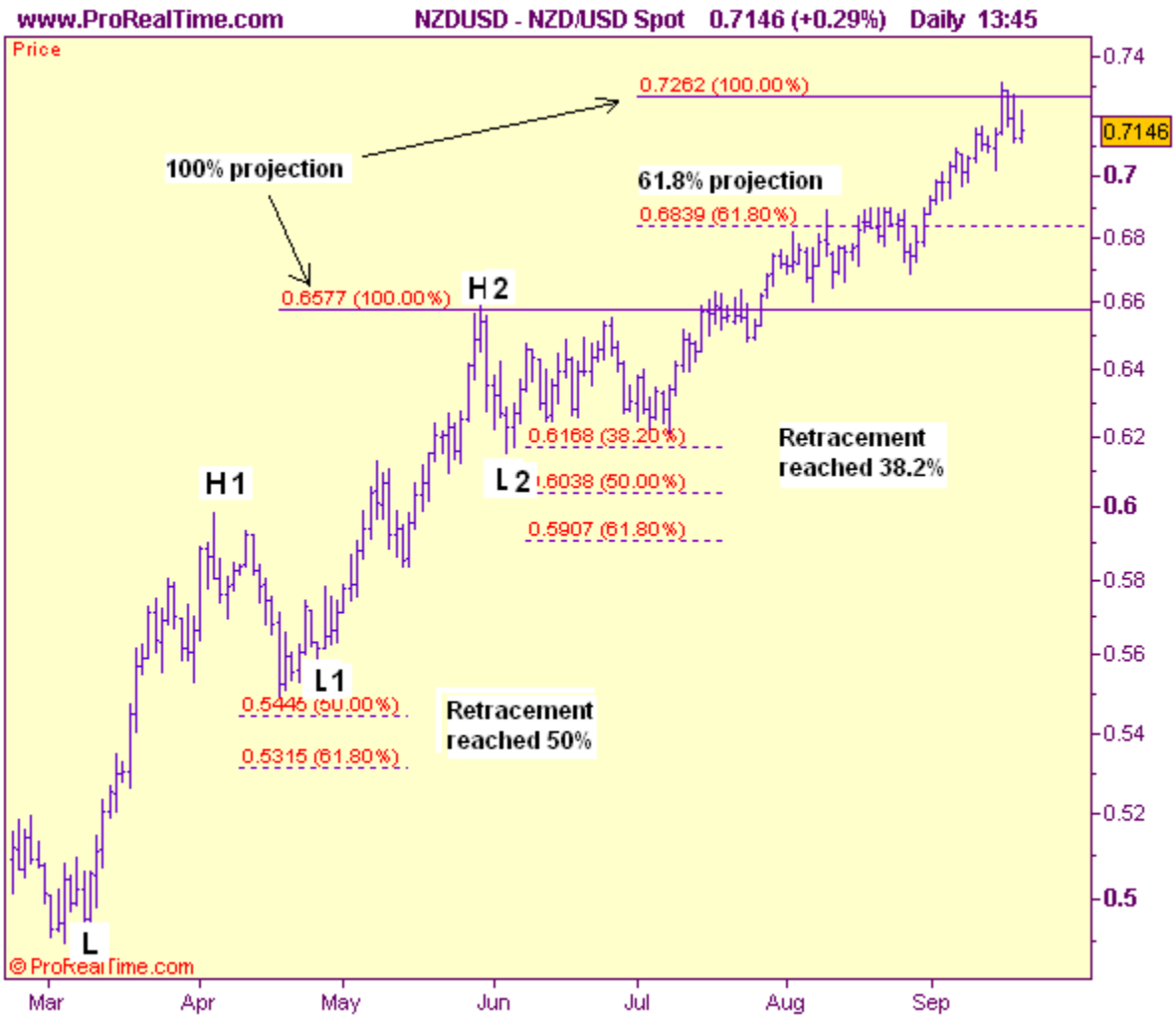
2.2 Projection

Once the retracement is over and price is starting to resume previous direction, this is the time to apply projection technique in order to predict the next upside or downside target. Fibonacci projection (extension) takes into account three points, in an uptrend, they are the starting low point (A), the swing high (B), then the reaction low (C), measures the vertical distance from (A) to (B) and get the Fibonacci percentage (e.g. 50% or 61.8%), then project it from point (C).

The following chart displays an actual example in NZD/USD daily chart of the application of Fibonacci retracement and projection.



On the left hand side of the chart, after forming a temporary high (H1), kiwi retreated almost 50% (of L to H1) and renewed buying interest emerged at L1, then started to move higher from there, then one can use these 3 points L, H1 and L1 to projection upside target and the currency pair rose to as high as H2, slightly

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exceeded 100% of L-H1 measuring from L1. This kind of process continues and after forming another temporary top at H2, one can calculate the Fibonacci retracement level by using L1 and H2 and get the three percentage (38.2%, 50% and 61.8%) levels ready. Price reached 38.2% retracement level and headed north again from there, as the retracement was shallow (only 38.2%), initial upside target should be 61.8% of L1 to H2 measuring from L2 and when this level is exceeded, get 100% projection level ready for the next upside objective.

In general, the simplest way in picking which ratio to use is if previous move has retraced between 0.236-0.382, then apply 50% projection, and if correction was near 50%, use 61.8%. When retracements exceeded 61.8%, use 100%, 123.6% or 161.8%.

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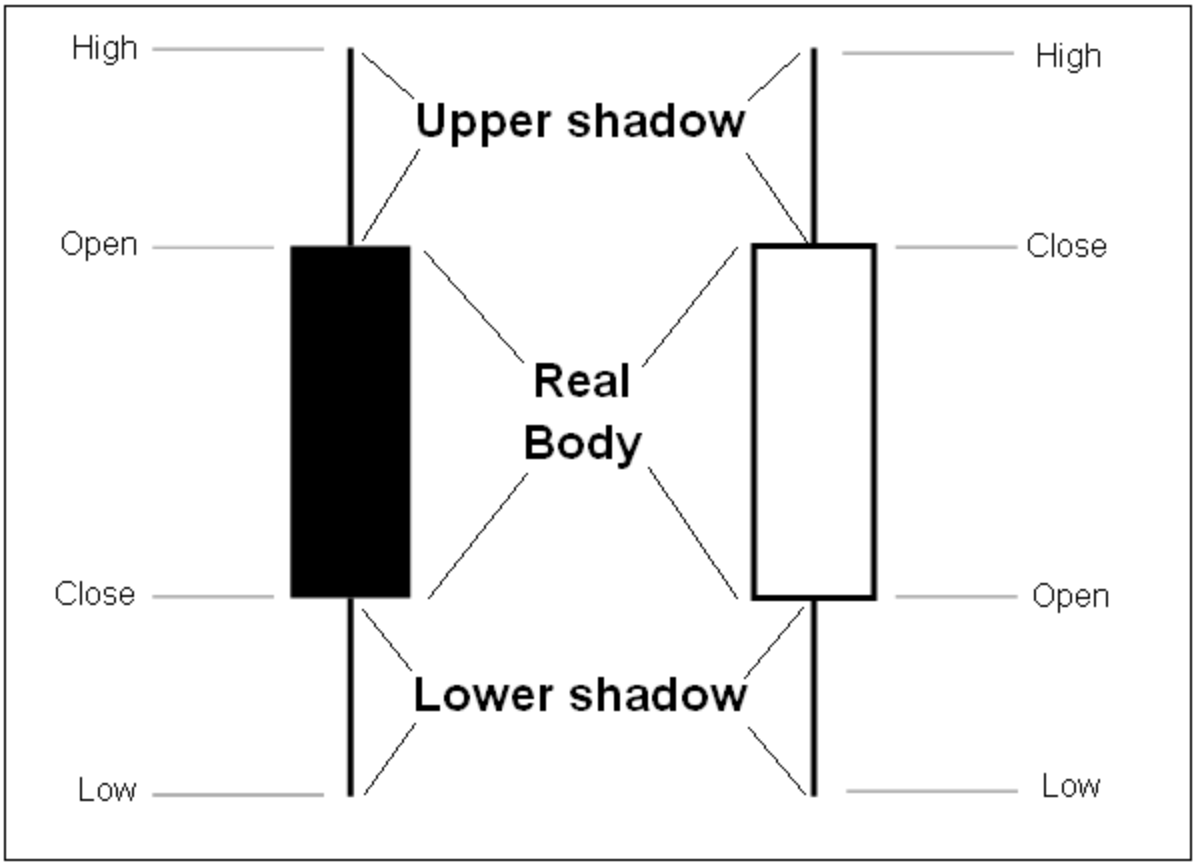
CHAPTER 3
Use of Candlestick charts

Candlestick chart was developed in 1700s in Japan by a man named Munehisa Homma, originally designed to trade rice futures in the 17th century, he invented a method to analyze the price with an overview of the open, high, low and close prices of each trading day over a certain period of time.

A line, known as shadow, was drawn to show the day's price range and a broader part of the candlestick represents the area between the session's opening price and the closing price, known as real body. If the opening price is lower than the closing price (i.e. a rising day), then the body is white; if the opening price is higher than the closing price (i.e. a falling day), then the body is black.

As the style of charting is relatively easier to read and understand, it became very popular and analysts relate the chart patterns to various bullish or bearish signals, which were considered quite reliable in predicting future market directions.



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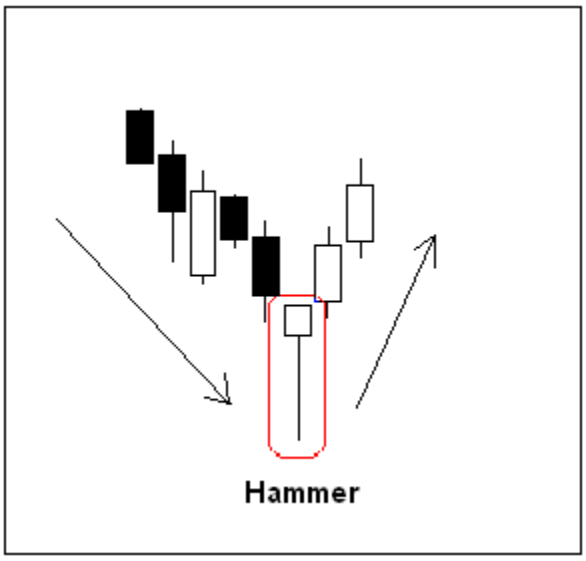
The colour (white or black) and the length of the real body exhibit the market forces, whether bulls / demand or bears / supply are winning. Generally speaking, the longer body indicates the more intense in buying or selling pressure (e.g. long white candlesticks reveal strong buying interest, i.e. buyers are very aggressive) whilst shorter real body normally suggests indecisive market situation and further sideways consolidation would take place. According to different combinations of candlesticks, various bullish and bearish patterns were found and we are going to discuss some of those major patterns here.

3.1 – Major Bullish Patterns

Hammer

This is a single candlestick reversal pattern made up of a small real body, ideally to be white but could be black, with a long lower shadow but a very short or even non-existent upper shadow. This candlestick should be formed after a decline, the bottom of the shadow marks a new low and then followed by white candlesticks. Therefore this is grouped under bullish reversal patterns.



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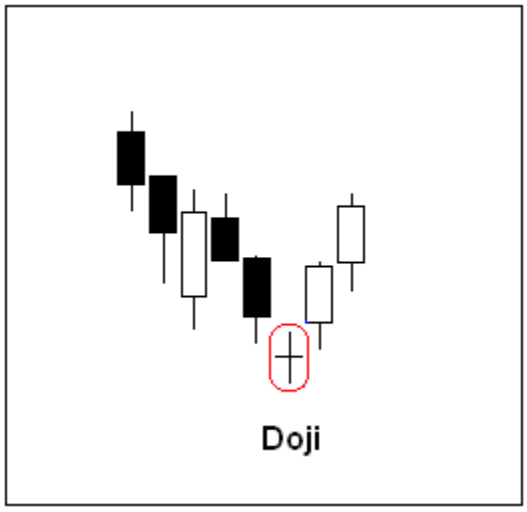
Doji

Another single candlestick reversal pattern which could be either bullish or bearish, depending on the combinations of the preceding and the subsequent candlesticks formations. A doji star is formed when the opening price and the closing price are virtually the same level (the word doji is actually a Japanese words '同市' which means same price level) which made no real body, the length of the upper and lower shadows can vary and the appearance of the candlestick resembles a plus sign, a cross or an inverted cross. One doji star alone is only a neutral pattern as it indicates a sense of indecision between the bulls and bears, whether it is going to be a bullish or bearish sign mainly depends on the prior and future price developments.

Whenever you see a 'doji' candlestick after certain trending moves, you can consider it as a warning sign or a red flag for a possible reversal and one should wait to see if there is candlestick pointing to the other direction after the doji.



In the above example, once the white candlestick is formed after the doji, this should be treated as a confirmation and one can buy the underlying security in anticipation of a low formation.

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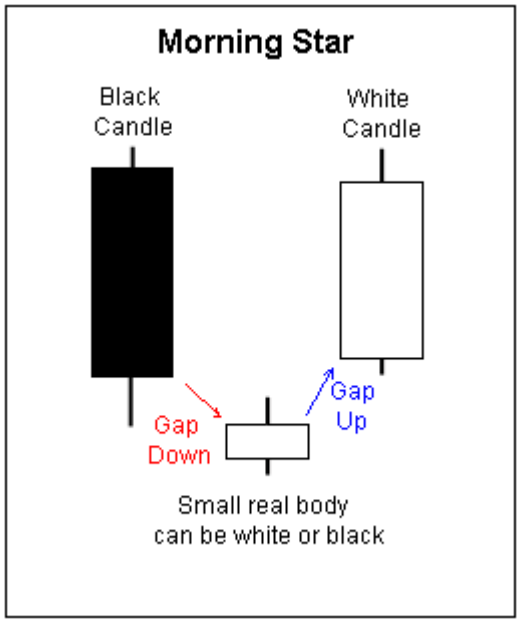
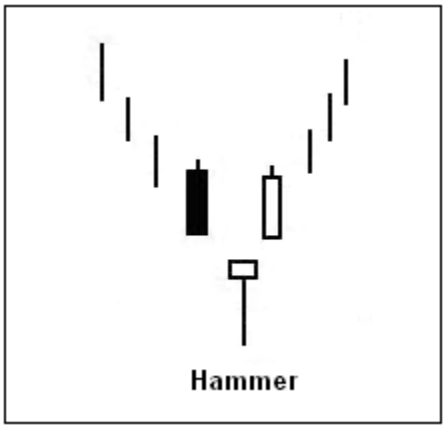
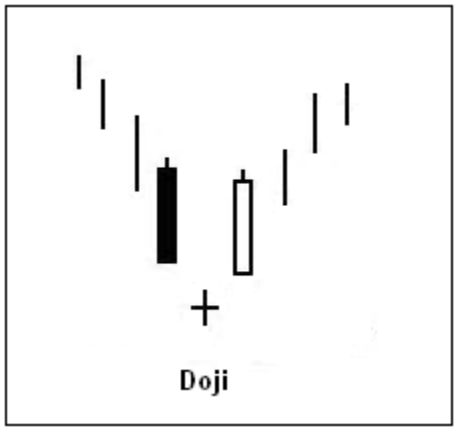
Morning star

This is basically a three steps bullish reversal pattern at the bottom of a downtrend consisting of three candlesticks, starting with a long real body black candlestick after an extended downtrend, a small body candlestick (could be white or black but a white body tend to have stronger indication) that gapped down on the open and closed below the low price of the previous candlestick (which make that candlestick appears isolated from prior bar), finally a long real body white candle which gapped up on the open and closed near the bar high or at least well above the mid-point of the previous black candle.



If the star itself is a hammer or doji, this normally suggests a stronger reversal signal and the subsequent impact is more likely to be bigger.





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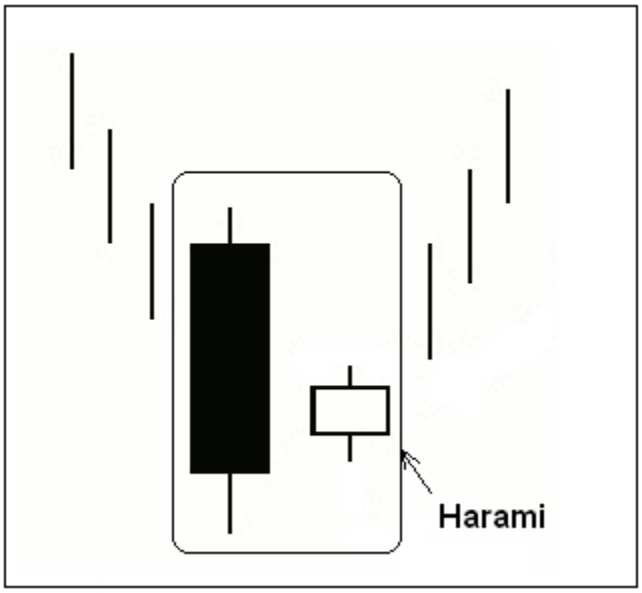
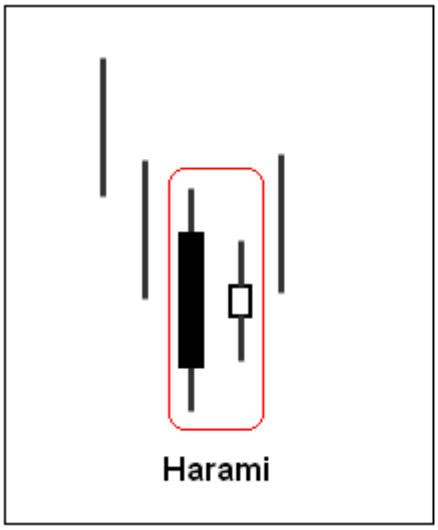
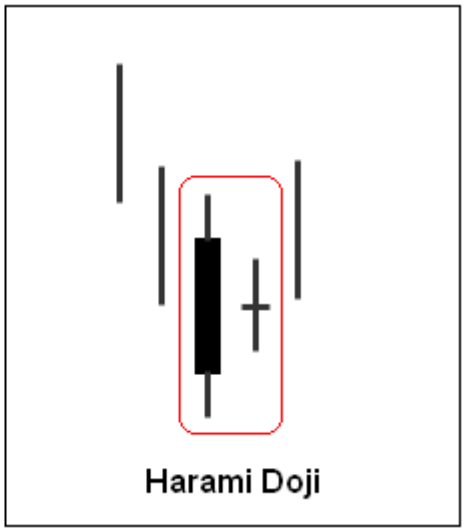
Harami

This is s two candlesticks pattern which could be either bullish or bearish depending on the combination of the prior and subsequent candlesticks development. In a downtrend, after a long black-bodied candlestick hitting a new low, the second candlestick has a small white body and is completely confined within the range of the previous candle. The Japanese word 'Harami' means pregnant, the pattern itself looks like a woman carrying a baby (needs some imaginations). The subsequent development is also important in order to provide confirmation, the candlesticks after the 'Harami' should start turning upwards, which means it should be followed by series of white candles.



The second candlestick could appear in different forms such as doji





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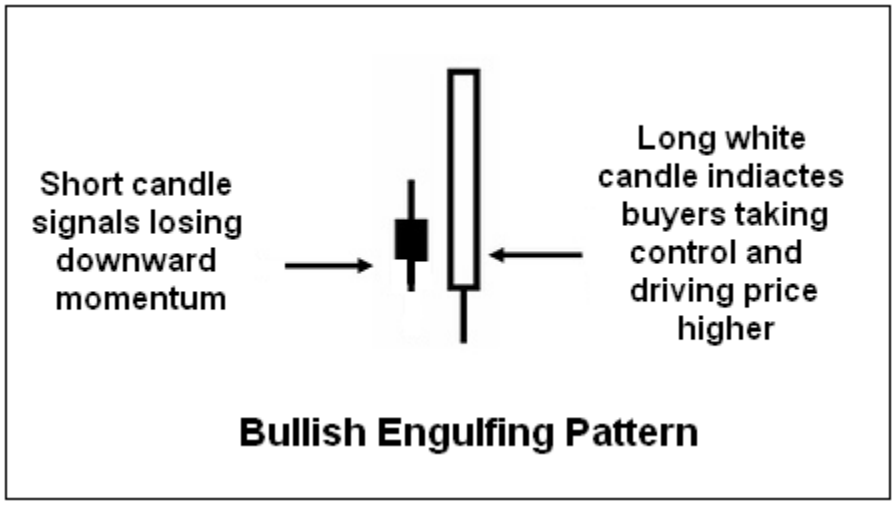
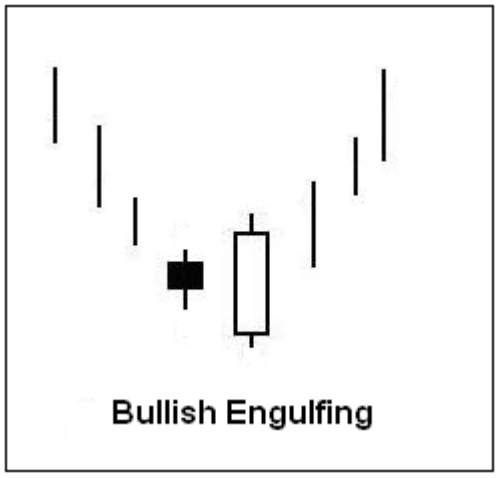
Bullish Engulfing Pattern

This is a reversal pattern which can be bearish or bullish, when it appears at the end of a downtrend, it would be a bullish engulfing pattern. The pattern starts with a small body candlestick, then followed by a candlestick whose body completely engulfs the previous candle's body as buyers outnumber the sellers, this would reflect in the chart by a long white real body candlestick.


Short candle signals losing downward momentum
Long white candle indiactes buyers taking control and driving price higher
Bullish Engulfing Pattern

Again this pattern needs confirmation and the long white candle should be followed by series of white candlesticks to confirm a low formation.



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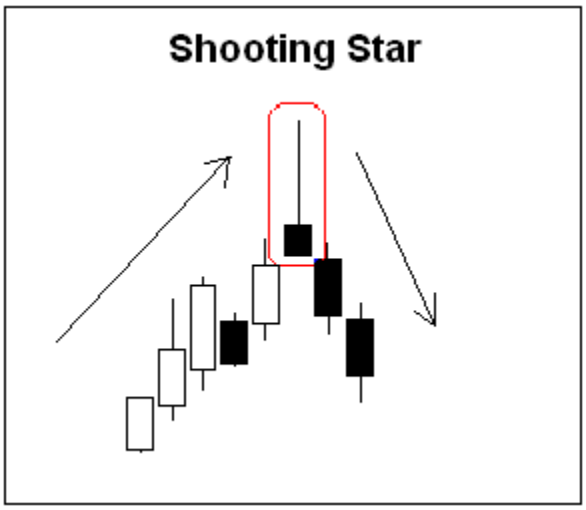
3.2 – Major Bearish Patterns

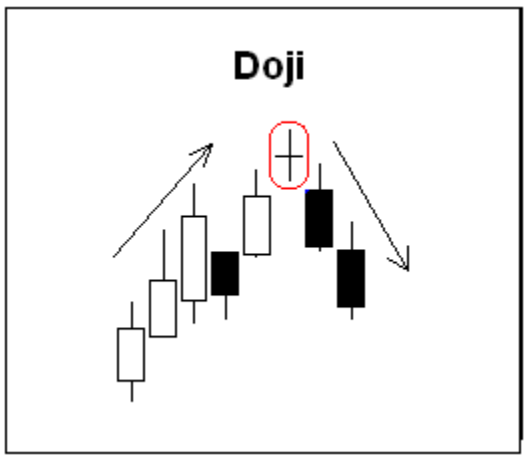
Shooting Star

This is a single candlestick reversal pattern made up of a small real body, ideally to be black but could be white, with a long upper shadow but a very short or even non-existent lower shadow. This candlestick should be formed after an uptrend, the top of the shadow marks a new high and then followed by black candlesticks. Therefore it is grouped under bearish reversal patterns



Doji

The characteristics of a doji top is similar to the doji bottom as explained earlier, only in different direction.



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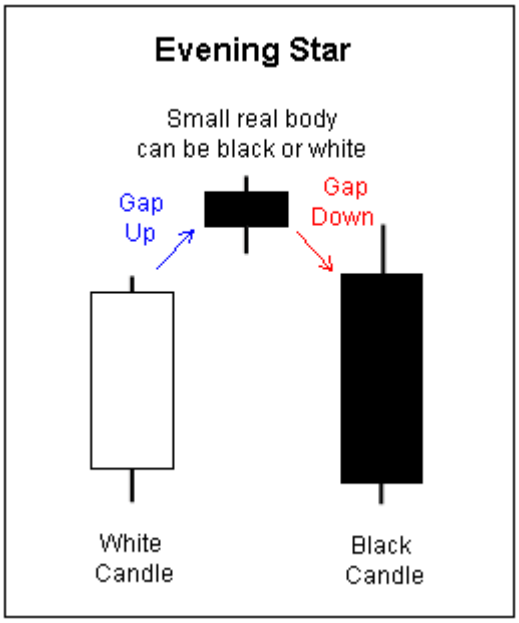
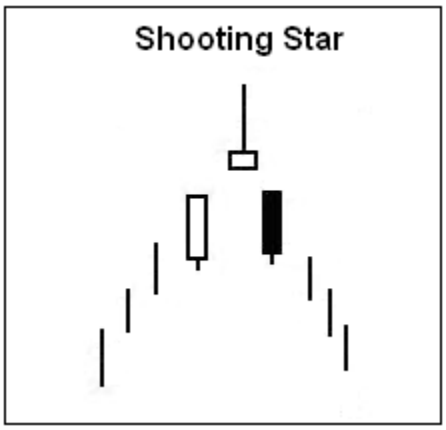
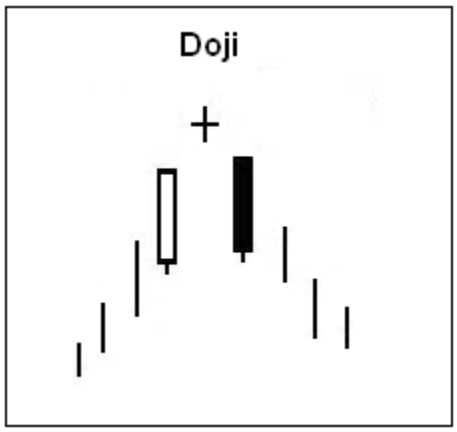
Evening star

This is a three steps bearish reversal pattern at the top of an uptrend, just like the Morning star pattern, consisting of three candlesticks, starting with a long real body white candlestick after an upmove, a small body candlestick (could be black or white but a black body tend to have stronger indication) that gapped up on the open and closed above the high price of the previous candlestick (which make that candlestick appears isolated from prior bar), finally a long real body black candle which gapped down on the open and closed near the low or at least well below the mid-point of the previous white candle.



If the star itself is a shooting star or doji, this normally suggests a stronger reversal signal and the subsequent impact is more likely to be bigger.





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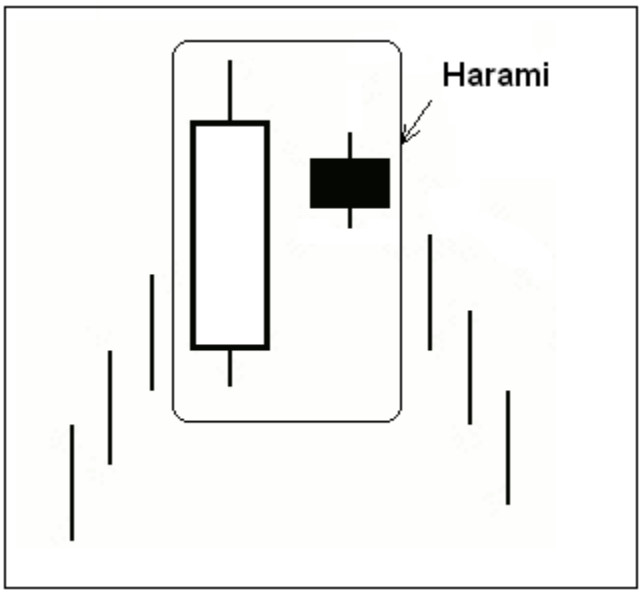
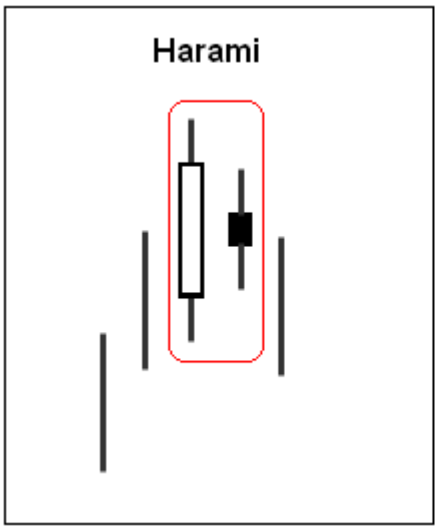
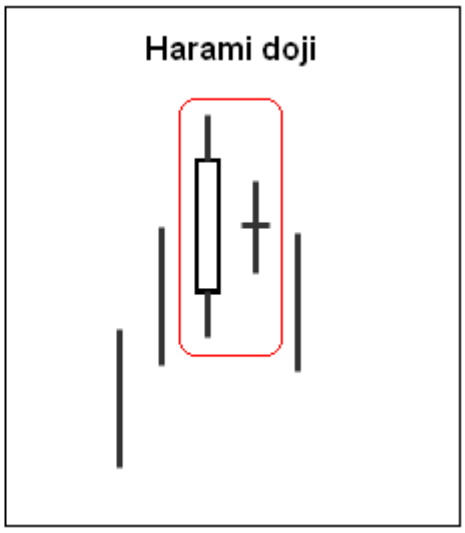
Harami

This is s two candlesticks pattern as indicated previously in the Harami bottom. In an uptrend, after a long white-bodied candlestick hitting a new high, the second candlestick has a small black body and is completely contained within the range of the previous candle. The subsequent development is also important in order to provide confirmation, the candlesticks after the 'Harami' should start turning downwards, which means it should be followed by series of black candles.



The second candlestick could appear in different forms such as doji





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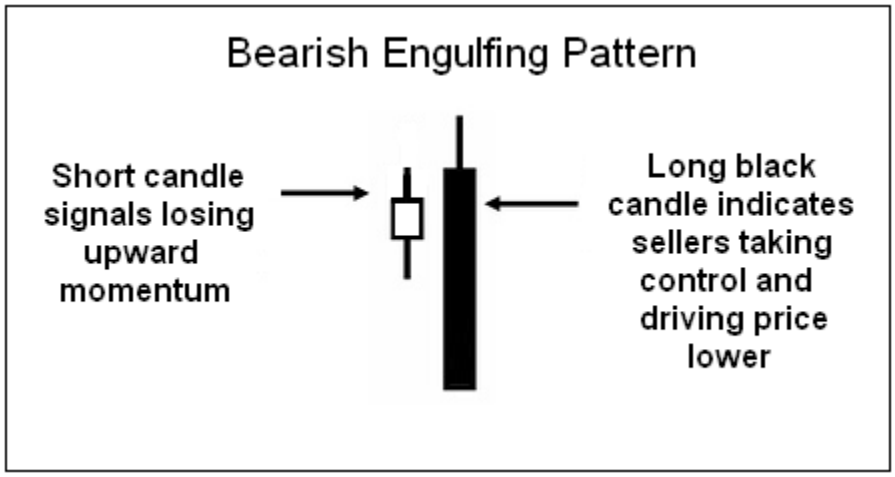
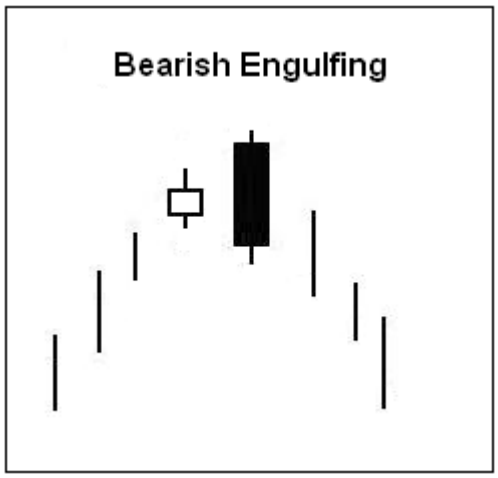
Bearish Engulfing Pattern

This is a reversal pattern appears at the end of an uptrend, which starts with a small body candlestick, then followed by a candlestick whose body completely engulfs the previous candle's body as sellers outpace the buyers, this would reflect in the chart by a long black real body candlestick.


Bearish Engulfing Pattern
Short candle signals losing upward momentum
Long black candle indicates sellers taking control and driving price lower

Again this pattern needs confirmation and the long black candle should be followed by series of black candlesticks to confirm a top formation.



There are actually more bullish and bearish candlestick patterns, some are reversal (e.g. Hanging Man, Abandoned Baby and Dark Cloud Cover) and some are continuation (e.g. Rising/Falling Three Methods and Tasuki Gap), we are going to discuss them in details in the second part of our E-book.

To sum up, applying the candlestick chart patterns analysis gives the investor an added advantage especially with the reversal signals. Candlestick chart should be

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used in conjunction with other traditional technical analysis tools such as oscillators in order to confirm top and bottom formation.

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CHAPTER 4
Ichimoku Analysis

4.1 – Introduction

Ichimoku Kinko Hyo is a technical indicator invented and published by Japanese people for more than 30 years, a tool to measure momentum and project future support and resistance.

First of all, the Japanese word "Ichimoku" means "one glance", "Kinko" means "balance / equilibrium and "Hyo" means "chart", in short Ichimoku Kinko means to see the equilibrium at a glance. Basically, the indicator is best used to define market trend, support and resistance and finally generate buy/sell signals.

Ichimoku Kinko Hyo consists of 5 lines and a "Kumo" or known as "cloud" as most people call it. Whilst Ichimoku Kinko Hyo utilizes five separate lines, they shall not to be used independently but rather to use them together to form a comprehensive view of the price action in order to formulate trading strategies. After studying these indicators, one should be able to understand market sentiment, momentum and relative strength of a trend "at a glance".

By studying each of the five components that make up Ichimoku Kinko Hyo, one shall be able to have a clear perspective of the relative equilibrium of the market as these lines can reflect market force, the balance between buyers and sellers.

4.2 - The 5 lines of Ichimoku

Tenkan-Sen (Conversion Line)

Kijun-Sen (Base Line)

Chikou Span (Lagging Span)

Senkou Span A

Senkou Span B

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Tenkan Sen

The Tenkan Sen, also known as short-term line (according to the Japanese meaning), conversion line and turning line. This line is calculated by:

(Highest High + Lowest Low) / 2, for the past x periods (Traditionally x=9)

There are quite some people compare the Tenkan-Sen to a simple 9 period moving average (no matter it is a simple one or a exponential one) and consider the two are quite similar to each other, however, the fact is that the Tenkan-Sen is very much different from the moving average as it measures the average of price's highest high price and the lowest low price for the past 9 period. It is believed that by applying the average of the price upper and lower range over a certain period of time is better in measuring market equilibrium than only using the average of closing price, especially in volatile market condition like the modern days.

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As you can see in the above chart, the Tenkan Sen reacts better than the 9 period simple moving average when there are more volatile movements, such as the quick rebound from the bottom, this is because the Tenkan Sen takes into account of the highest high price and lowest low price. In addition, the average of the highest high price and lowest low price enables the line to stay at the mid-point when market is in a ranging situation.

The Tenkan Sen can serve a purpose to track the trending moves and in a rising market, the line shall act as a level of support whilst in a falling market, it will likewise act as a line of resistance.

The slope or angle of the Tenkan Sen provides additional information of the relative strength of the trend over the past given period. In general, a steeper slope indicates a stronger momentum whilst a flatter line or more horizontal Tenkan Sen signals weakening of near term momentum.

After a period of trending moves, the break of Tenkan Sen should be treated as an early sign of a temporary change in direction or at least a pause of current trend. Hence, consolidation shall take place and some correction of the previous decline or rise would be seen, however, whether it is really going to be a top or bottom formation or reversal will need confirmation provided by other Ichimoku components.

A main use of the Tenkan Sen is to apply it together with the Kijun Sen as the cross-over of the two lines can provide bullish and bearish signals, we will discuss it in further details after explaining the characteristics of Kijun-Sen.

Kijun Sen

The Kijun-Sen, also known as base line, which is primarily used to measure medium term price momentum and it is calculated as :

(Highest High + Lowest Low) / 2, for the past y periods (Traditionally y=26)

Although the formula is quite similar to the one of Tenkan Sen (calculating the sum of the highest high and lowest low divided by two), as the Kijun Sen takes a long time frame into account (the past 26 time periods) which enables the line to provide the different perspective in understanding the change in short to medium term trend.

Generally, when price is moving sideways, the Kijun Sen will reflect by moving horizontally (flat ground) and once price exceeds either the highest or the lowest price within the indicated time periods (e.g. 26), then the time will start rising or falling accordingly. Therefore, the direction of the Kijun Sen can be used to measure

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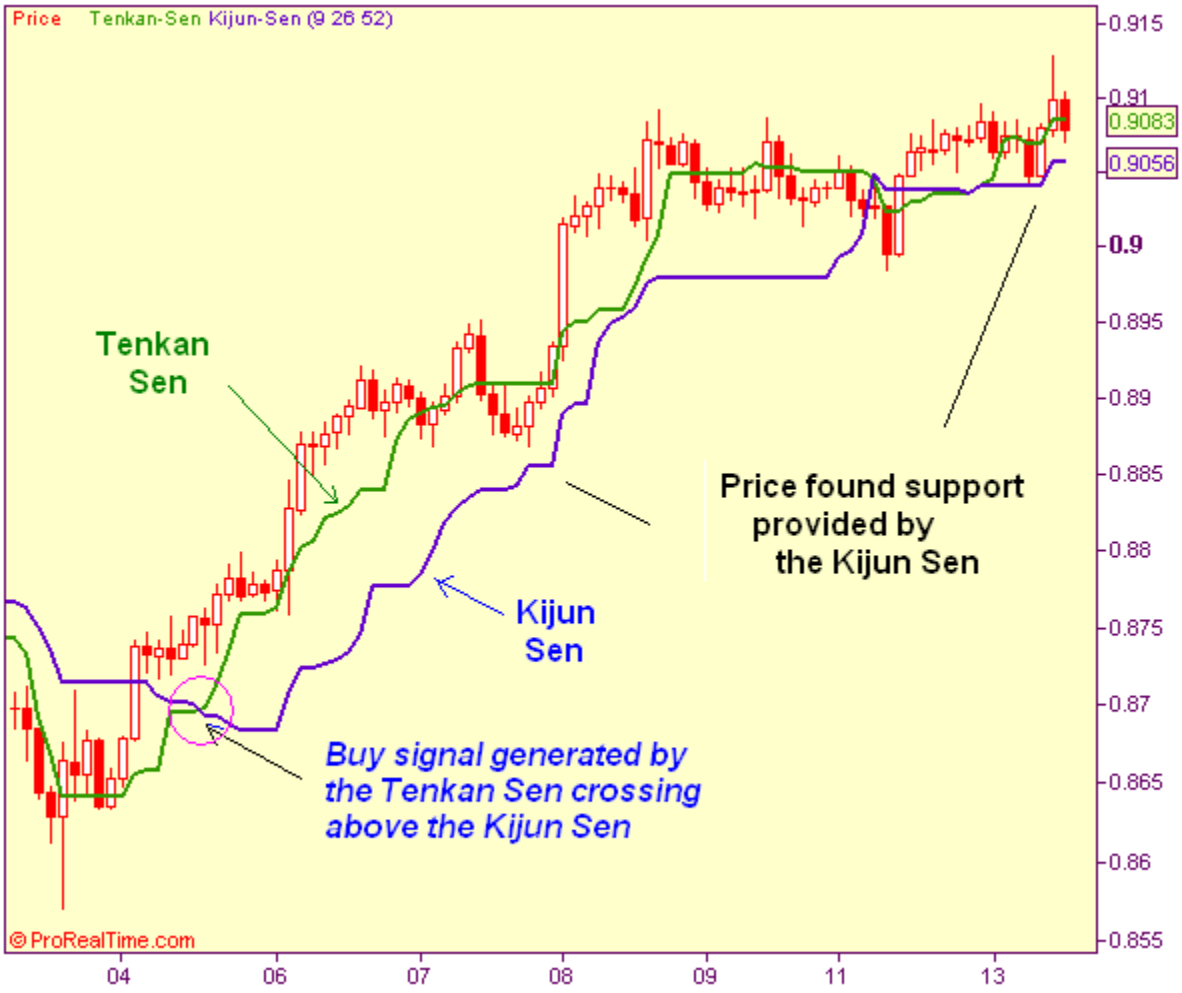
the short-term trend and the strength of momentum of the trend can be indicated by slope or the relative angle of the Kijun Sen.

Whilst there are countless applications of the Kijun Sen, as mentioned above, one important use of this base line is in conjunction with the Tenkan Sen, take the crossover of the two line to initial a trading position.



As indicated in the above chart, a buy signal is generated when the Tenkan Sen crosses above the Kijun Sen and one can hold on to the long position as long as the Tenkan-Sen remains above the Kijun-Sen and once the Tenkan-Sen crosses below the Kijun-Sen, this is a signal to exit the long position immediately.

As the Kijun Sen is using a relatively longer time frame, it is considered as more reliable way to express price equilibrium (just as the name of the indicator "Kinko") and therefore, the Kijun Sen itself can be relied as a significant level of resistance (in downtrend) and support (uptrend).

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An additional use of Kijun Sen is the pullback effect (just like the moving average), as the Kijun Sen is a good expression of price equilibrium, whenever price moves too far away from the Kijun Sen, which also represents an overbought or oversold condition, the price should not stay in that extreme level for too long and it is quite common to see price moves back towards the Kijun Sen, i.e. brings price back to equilibrium. This effect is particularly obvious when the Kijun Sen is moving horizontally which also indicates time of consolidation is taking place.

To sum up:

A buy signal is generated when Tenkan Sen cross above the Kijun Sen from below and it will be considered as a stronger signal if market price is above both lines.

A sell signal is generated when the Tenkan-Sen crosses below the Kijun-Sen from above and it will be considered as a stronger signal if market price is below both lines.

When a position is entered in reaction to such a signal, one can use the Kijun Sen to set stop-loss level, one can put stop-loss below the Kijun Sen for long position and for short position, the stop-loss should be placed above the Kijun Sen.

Actually there are more applications of the Kijun Sen, we will discuss it in further details in next part of our E-book which will focus more on the advance use of Ichimoku Kinko Hyo.

The Kumo / " cloud"

The Kumo (or most people call it cloud and actually it does mean cloud in Japanese) is probably the most famous part of Ichimoku Kinko Hyo analysis and is getting more popular among chartists for the use of identifying support and resistance area. Some people even consider the Kumo as the core or key of this charting system. In fact the cloud itself is the most instantly visible component among the other lines in Ichimoku Kinko.

Actually the Kumo / cloud is referring to the area between 2 lines, they are the Senkou Span A and the Senkou Span B. Since the two lines are derived from the Tenkan Sen and Kijun Sen; highest high and lowest low respectively, so the Kumo is able to provide a deeper perspective of the market equilibrium. This cloud area also brings a better way when compare to other traditional chart analysis methods to represent price support and resistance, which is not only a single level but rather an area that would react on market volatility.

The Senkou Span A is calculated as:

(Tenkan-Sen + Kijun-Sen) / 2, shifted forwards y periods (Traditionally y=26)

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The line is basically the mid-point between the Tenkan Sen and Kijun Sen but being plotted 26 periods ahead, the logic behind is that prior support and resistance tend to have impact on current price level, in other word the current price level normally pays respect to previous support and resistance. Therefore, when this line is drawn with 26 periods (for a daily chart, that would represent the data of approximately 1 month ago) forward displacement, it can give Ichimoku chartists a quick comparison of current price level with the prior support and resistance at a glance.

The Senkou Span B is calculated as:

(Highest High + Lowest Low) / 2 for the past z periods, shifted forwards y periods (Traditionally y=26 and z=52)

This line is always drawn alongside the Senkou Span A and is another component of the Ichimoku Kinko Hyo to create the Kumo / cloud. This line represents a relatively longer term view of the market equilibrium in the charting system, instead of calculating the past 26 periods data, the Senkou Span B measures the average of the highest high price and lowest low price for the past 52 periods (2 months data on daily chart) but again shifts forwards by 26 periods. Therefore, when putting the two lines, Senkou Span A and Senkou Span B, together and forming the Kumo, the cloud can cover both short-term (26 periods) and longer term (52 periods) data, hence providing a multi time frame perspective in understanding market equilibrium.

When the market trend is down, the Senkou Span A is located below the Senkou Span B; in a rising market, the Senkou Span A is located above the Senkou Span B. So the indicators are also used to predict the change in market direction when the two Senkou Spans cross over with each other.

Once the two lines are drawn, the area in between Senkou Span A and B, the shaded area, known as Kumo or cloud can be used to predict future support and resistance area.

When price is trading above the Kumo, the prevailing trend is said to be up and the Kumo will be treated as the support area whilst if price is below the Kumo, the trend is said to be down and the cloud will become resistance area instead.

The thickness of the Kumo (cloud) also indicates the market volatility as the cloud contracts and expands based on past price fluctuations. A thin layer of cloud reveals the lower historical volatility whilst a thick cloud implies higher historical volatility.

As explained above, the Kumo provides a different view of support and resistance and the thickness of the cloud provide additional information regarding the relative strength of the support and resistance. Normally the thicker the Kumo, the stronger

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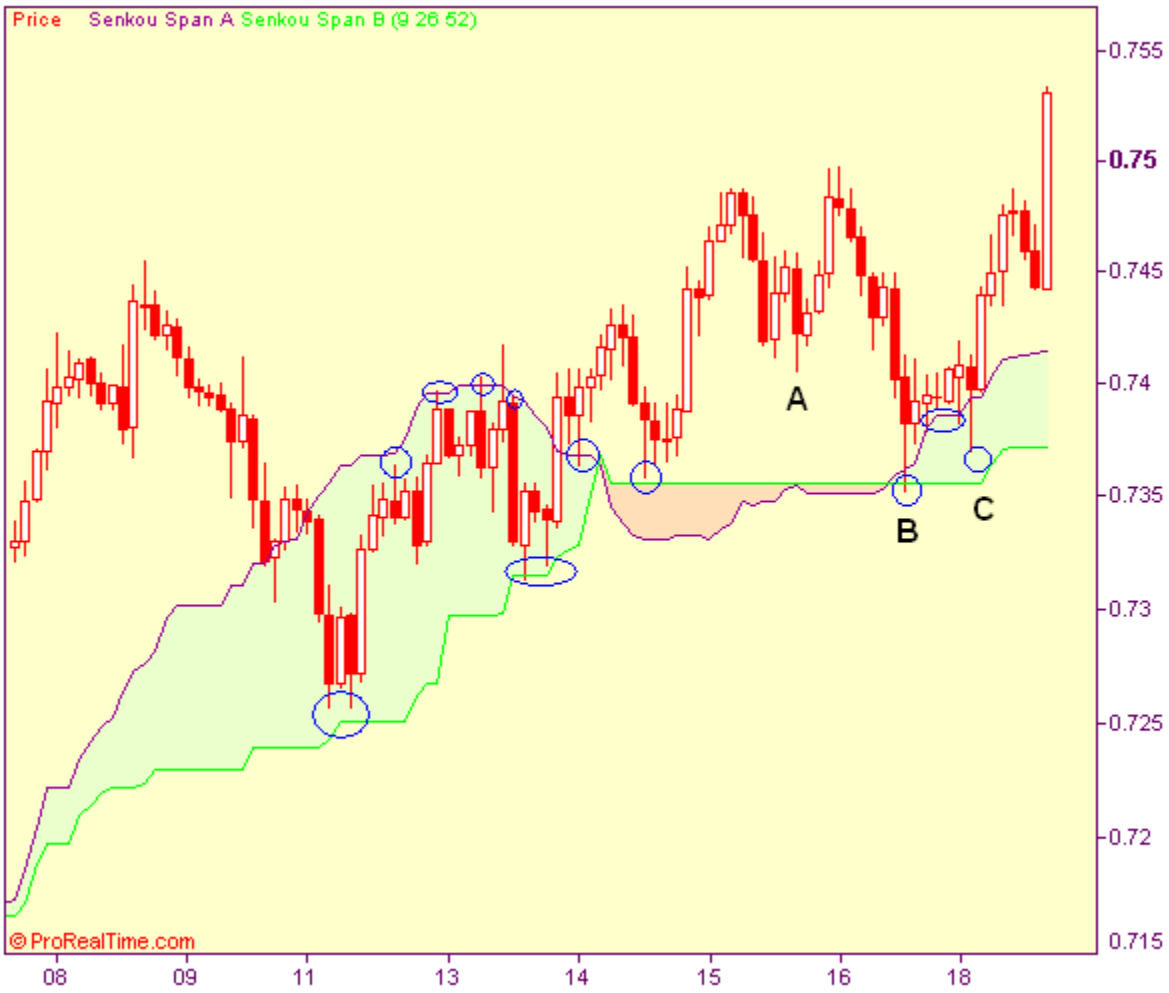
is the support or resistance will be provided by the cloud. When price runs into a thick layer of Kumo, that usually suggests a non-trend situation and sideways trading is more likely to take place.



In the above chart, we can see price paid respect to the boundaries of the Kumo, Senkou Span A and B, in several occasions. From the far left of the chart, price started turning down after rising for some times, once the upper Kumo or the Ichimoku cloud top is broken, this normally indicates a temporary top is formed and correction has commenced, then the next line of support will be the lower Kumo or the cloud bottom. When price is trading inside the cloud area, the two lines, Senkou Span A and B, formed the upper and lower limit of the trading range and until price is able to break outside of this range, choppy consolidation within the cloud area would take place. Once price rises above the cloud area, the Kumo would turn from resistance to support and buying interest normally emerges above there, pushes price higher.

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An additional advantage of using Ichimoku Kumo is that it provides a different perspective of the concept of support and resistance when comparing with the traditional technical analysis method. In the above chart, after breaking point A, according to traditional technical analysis techniques, it also ended the series of higher highs and higher lows which means an end of the prevailing trend. Traditional chartists might have sold the currency pair on such a break in anticipation of a correction of the upmove, however, price was not able to break below the Ichimoku cloud (not on a closing basis) and found support at point B and C around the Ichimoku cloud bottom, then headed back north again and resumed the uptrend subsequently.

The Kumo itself could also express market sentiment and therefore can show bullish or bearish signs, we will discuss the use of Ichimoku cloud in further details in the second part of our E-book.

Finally, the Chikou Span which is basically the current closing price time-shifted backwards by 26 time periods. This line is originally used to make quick comparison with the current closing price to the closing price of 26 time periods ago, if current closing price is higher than that of 26 periods ago, then it means there are more bullish potential and vice versa. However, in our approach, we prefer and remove the Chikou Span (which leave a chart a bit more clear) and simply use the other 4 lines.

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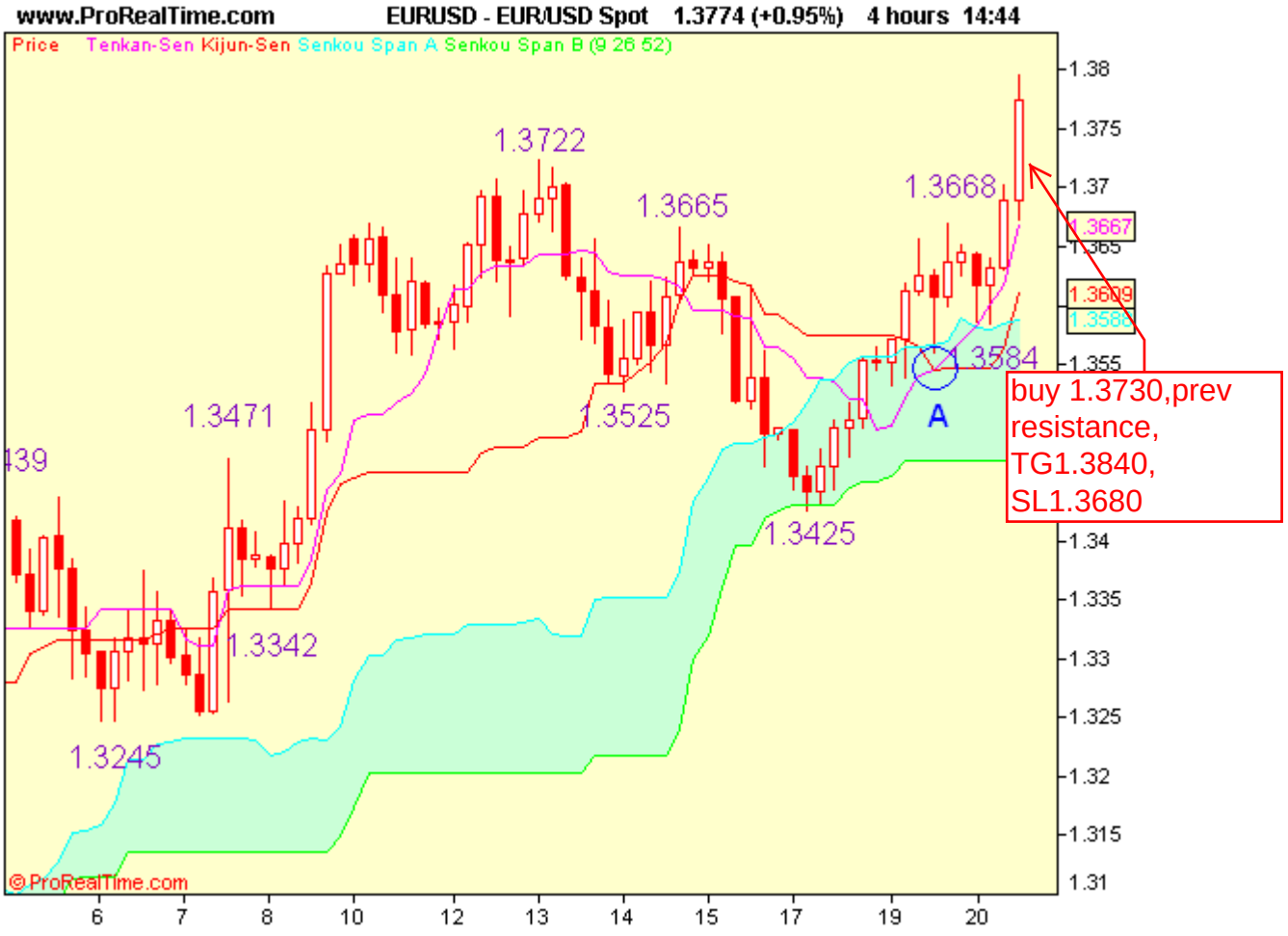
CHAPTER 5

Putting them together – Trade Examples

In this part of our E-book, we will put the aforesaid technical analysis methods together and formulate objective trading strategies. Real life examples, based on those actual trading recommendations we made which published in our pages on www.Actionforex.com, will be used to explain the methodology.

Basically, we have been and are still using 4 hour candlestick chart with Ichimoku Kinko indicators for the analysis and we will pick some examples in rising market, falling market and ranging market situations for discussion.

On 20 May 2009, in EUR/USD we have a chart as follow:



Despite the relative strong correction from 1.3722, the single currency found decent demand right at the Ichimoku cloud bottom around 1.3425 and rallied from there,

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later on the Tenkan-Sen crossed above the Kijun-Sen at point A, generated a strong buy signal (as price is above the two lines as well as the Kumo) and one should buy the currency pair on pullback to the Tenkan-Sen, a general pullback target in anticipation of a resumption of upmove. However, since we are not a real time trading strategies provider (price did eased back to the Tenkan-Sen and being contained by the Ichimoku cloud top) , when it came to our update time, price already jumped to new high and as price is getting too far away from both Tenkan-Sen and Kijun-Sen, we gave a buy on pullback recommendation as follow:

Trade Idea: Buy euro at 1.3730

Candlesticks Trades | Written by ActionForex.com | May 20 09 15:03 GMT |

Trade Idea: Buy euro at 1.3730

EUR/USD - 1.3778

Most recent candlesticks pattern: N/A

Trend: Sideways

Tenkan-Sen level : 1.3667
Kijun-Sen level : 1.3609
Ichimoku cloud top : 1.3588
Ichimoku cloud bottom : 1.3468

Our trading strategy is: Buy euro at 1.3730, Target :1.3840, Stop-loss : 1.3680

The single currency finally broke above indicated key resistance at 1.3739,. confirming the upmove from 1.2457 has resumed and further gain to 1.3844, being the 50% Fibonacci projection of 1.2885 to 1.3722 measured from 1.3425, would be seen, however, further sharp rise beyond 1.3856 (61.8% Fibonacci retracement of the entire decline from 1.4720 to 1.2457) is unlikely to be seen today and price should falter well below 1.3942 (61.8% Fibonacci projection). We see near term risk has increased for a minor correction to take place due to the overbought condition.

Therefore, whilst we are still recommending to buy euro on pullback, would be wise to take profit on the next rally as a strong retracement might take place later tomorrow.

On the downside, expect pullback to be limited to 1.3720-30 and renewed buying interest should emerge well above 1.3700. Only below 1.3667/68 (currently level of Tenkan-Sen as well as previous resistance level) would indicate a temporary top is possibly in place and correction to 1.3600/10, however, break of 1.3575/80 is necessary to confirm a temporary top has been formed.

This recommendation is based on the concept that a resistance after being penetrated will turn into a support, so in this case resistance at 1.3722 became a support level and we set our entry right above there.

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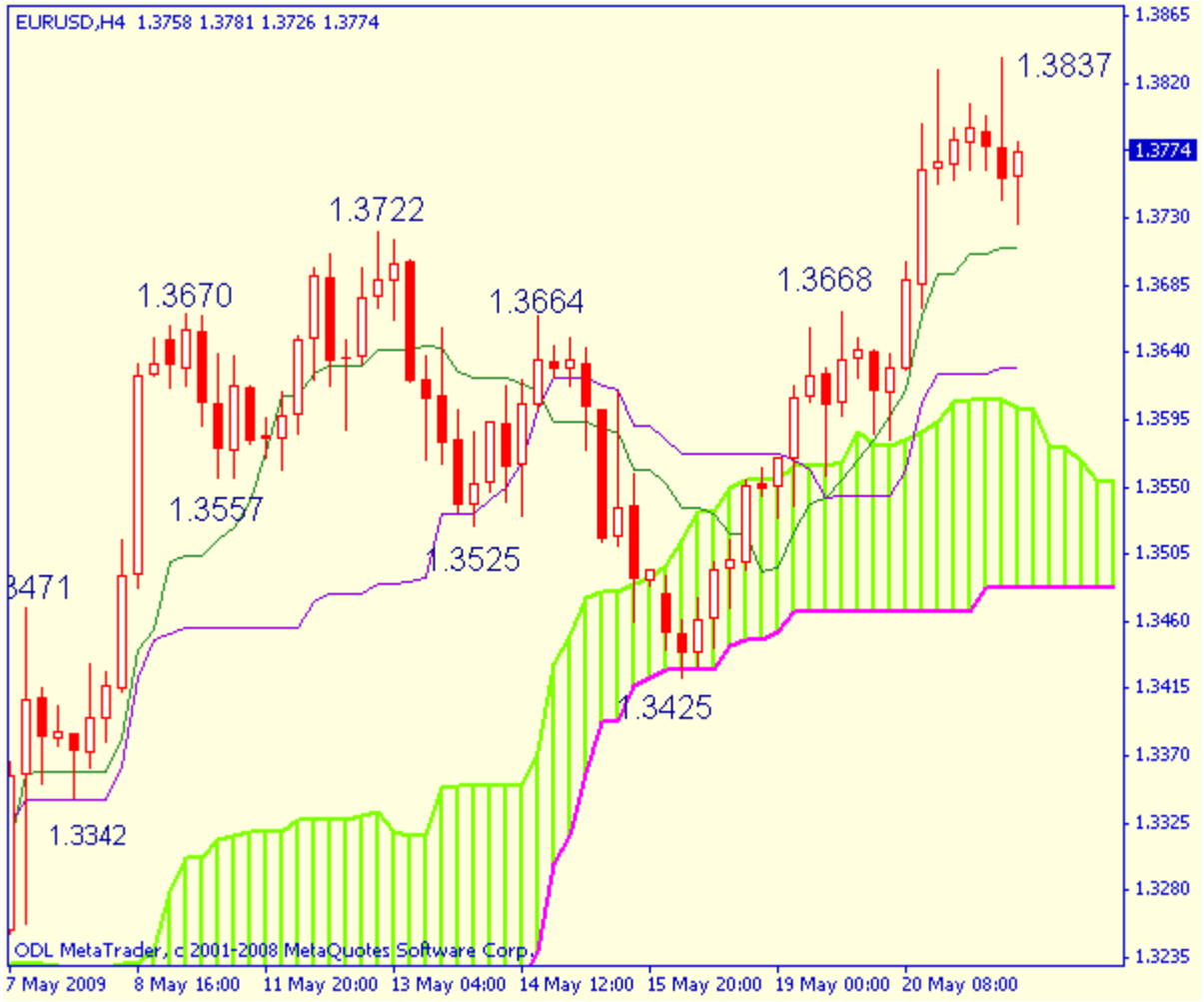

Then price could only made marginal high to 1.3837 and did retreat to our entry level, renewed buying interest emerged as expected and euro rebounded. At this point, we suggested to keep our long position with stop raised to just below the Tenkan-Sen at 1.3710 as this line should hold if price is going to resume its uptrend, hence the following recommendation was made accordingly.

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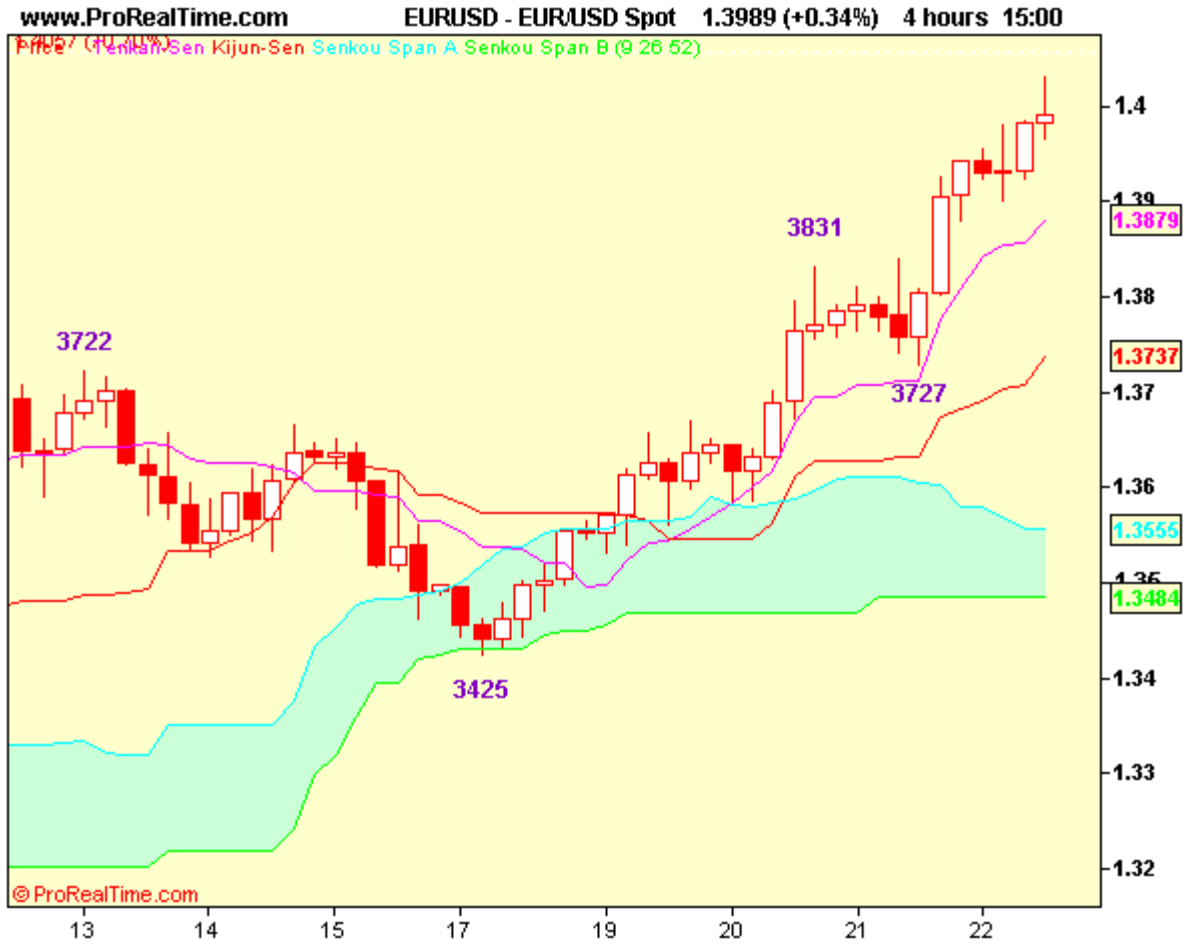

Euro did stay above the Tenkan-Sen and resumed the uptrend in line with our expectation, met our upside target at 1.3840 without any difficulty.

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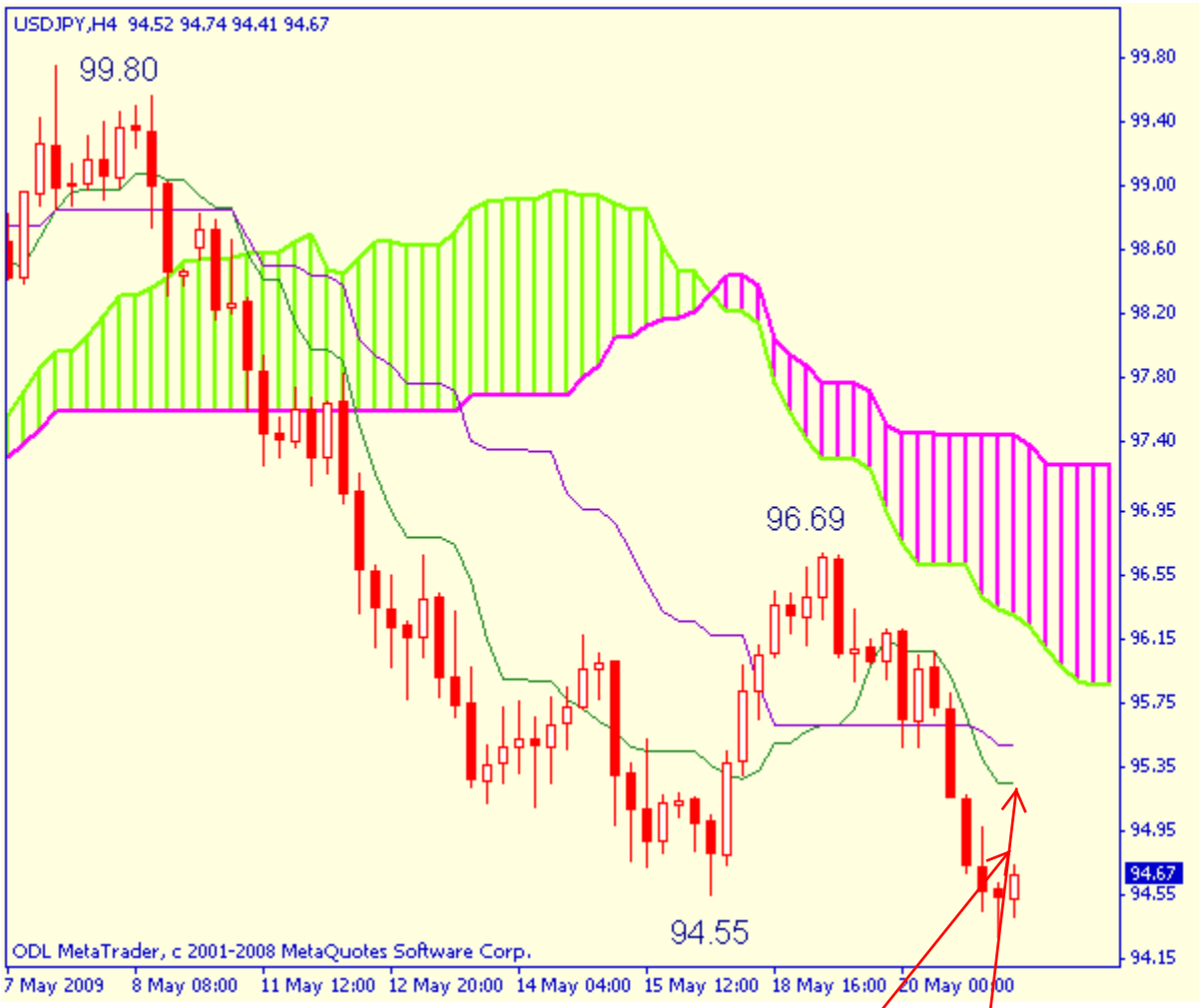
On 21 May 2009, in USD/JPY we have a chart as follow:



Although the greenback just resumed the decline by breaking support at 94.55, as the correction to 96.69 was not strong enough, just slightly more than 38.2% Fibonacci retracement at 96.56, suggesting downside would be limited and the currency pair may find support around 94.07 (50% projection of 99.80 to 94.55 measuring from 96.69). In addition, as price is getting a bit too far from both Tenkan-Sen and Kijun-Sen, it is quite common to see recovery back towards these lines due to the pullback effect. Therefore, whilst the trend is still down, we gave strategies to trade both sides of the market as:

Buy on corrective bounce at 94.10, SL93.50,TG95.30

Sell 95.30, SL95.80,TG94.10

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Trade Idea: USDJPY - Sell At 95.30 Or Buy At 94.10

Candlesticks Trades | Written by ActionForex.com | May 21 09 07:14 GMT |

Trade Idea: USDJPY - Sell At 95.30 Or Buy At 94.10

USD/JPY - 94.67

Most recent candlesticks pattern: N/A

Trend: Down

Tenkan-Sen level : 95.25
Kijun-Sen level : 95.48
Ichimoku cloud top : 97.43
Ichimoku cloud bottom : 96.30

Our trading strategy

1. Sell at 95.30, Target :94.10, Stop-loss : 95.80

OCO

2. Buy at 94.10, Target : 95.30, Stop-loss : 93.50

The greenback finally broke below recent support at 94.55 after meeting renewed selling earlier at 96.69, as price is currently trading below Tenkan-Sen, Kijun-Sen as well as the Ichimoku cloud, suggesting the decline from 101.45 top is still unfolding and is likely to extend towards 93.98/94.07 (100% measurement of the fall from 101.45 to 95.63 projecting from 99.80 and 50% Fibonacci projection of 99.80 to 94.55 measuring from 96.69 respectively). Having said that, further sharp selloff below this level may not repeat again today and it is quite possible we are about to see a rebound from there.

Therefore, whilst we are recommending to sell dollar on recovery, at the same time, we also suggest to venture buying the pair on such a decline for aforesaid bounce back to 95.30 (slightly below current level of Kijun-Sen) which we expect would start attracting selling interest again.

If price rebounds above 95.80 (approax. 61.8% Fibonacci retracement of the fall from 96.69), then stronger recovery cannot be ruled out but upside should be limited to the bottom of Ichimoku cloud (now at 96.30).

In the event dollar's decline accelerates and drops below chart support at 93.55, then marginal weakness to 93.10/20 might follow, however, there is still chance to see the greenback to stage a rebound from there.

A suggestion was made to venture long at 94.10 for a corrective rebound back towards the Tenkan-Sen and Kijun-Sen, expecting price to stay well above chart support at 93.55 and the 61.8% projection at 93.45.

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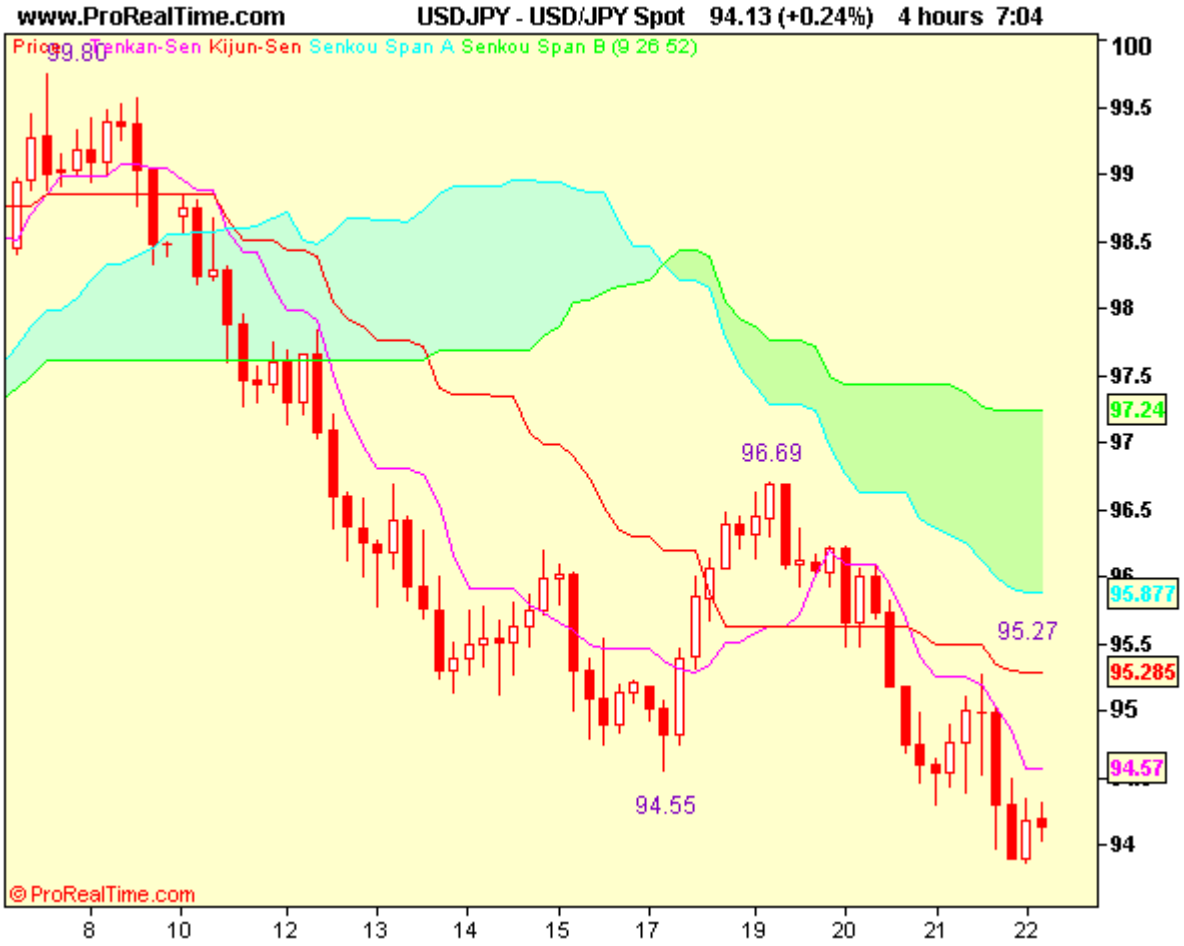

The greenback fell again after meeting renewed selling at the Tenkan-Sen, however, as price is still trading above indicated support level, we are holding on to our long position entered at 94.10 in anticipation of a much-needed correction.

Trade Idea: USD/JPY - Hold Long At 94.10

Candlesticks Trades | Written by ActionForex.com | May 22 09 07:22 GMT |

Trade Idea: USD/JPY - Hold Long At 94.10

USD/JPY - 94.67

Most recent candlesticks pattern: N/A

Trend: Down

Tenkan-Sen level : 94.57
Kijun-Sen level : 95.28
Ichimoku cloud top : 95.87
Ichimoku cloud bottom : 97.24

Our trading strategy: **Hold long entered at 94.10, Target : 95.30, Stop-loss : 93.50**

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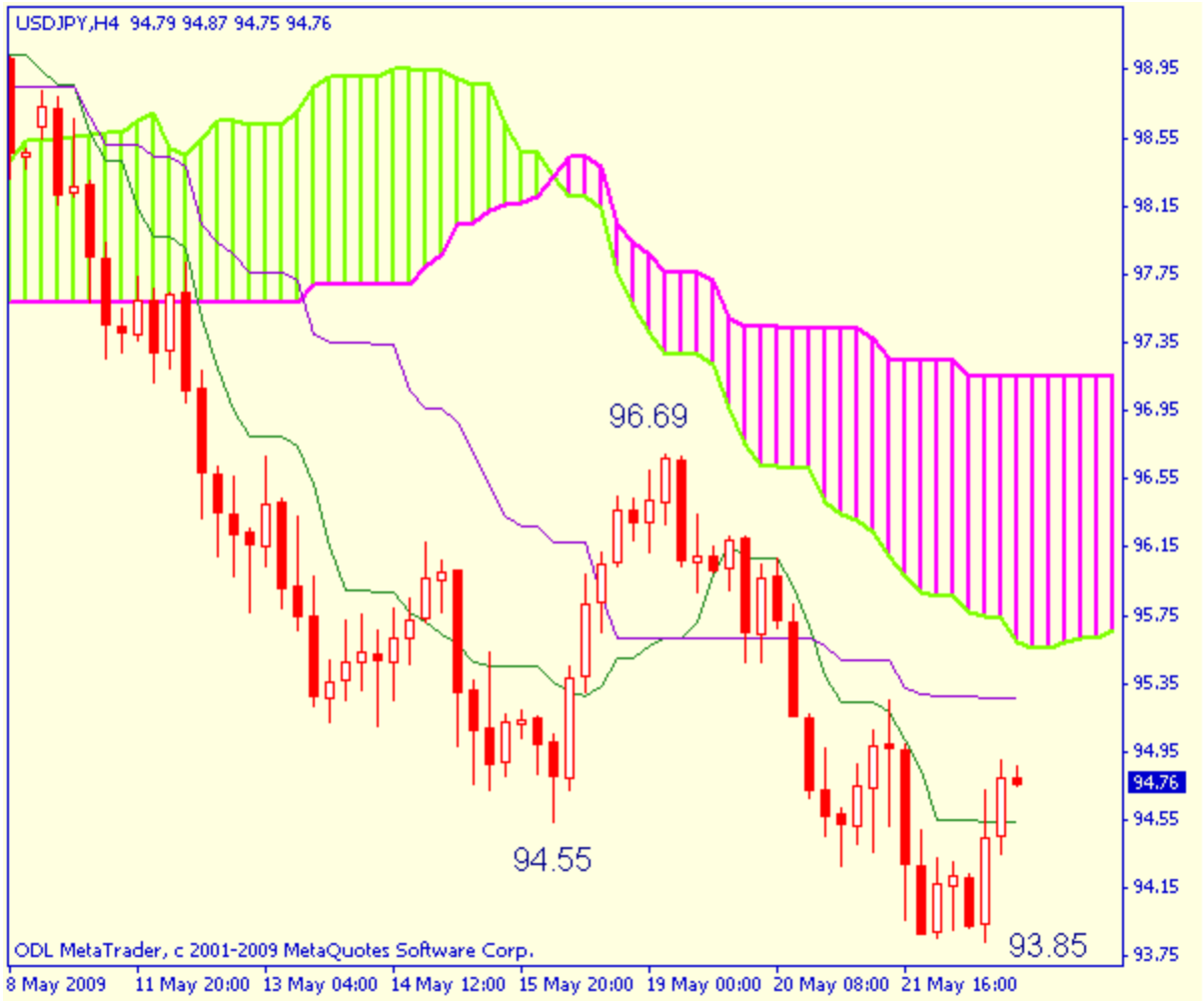

The greenback finally found good support at 93.85 and rebounded above the Tenkan-Sen, this was the first sign that a temporary low was formed and correction to the Kijun-Sen was a reasonable expectation. In addition, the sideways moving Tenkan-Sen and Kijun-Sen also suggested the trending move had paused and consolidation would take place. Hence, we were holding on to our long position entered at 94.10 but with a lower target as the Kijun-Sen located at a similar level of the 50% Fibonacci retracement of 96.69 to 93.85 at 95.26-95.27 respectively, which normally implied a stronger resistance would be seen around this confluence point.

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Trade Idea: USDJPY - Hold Long at 94.10, Stop Raised to 94.25

Candlesticks Trades | Written by ActionForex.com | May 24 09 20:40 GMT |

Trade Idea: USDJPY - Hold Long at 94.10, Stop Raised to 94.25

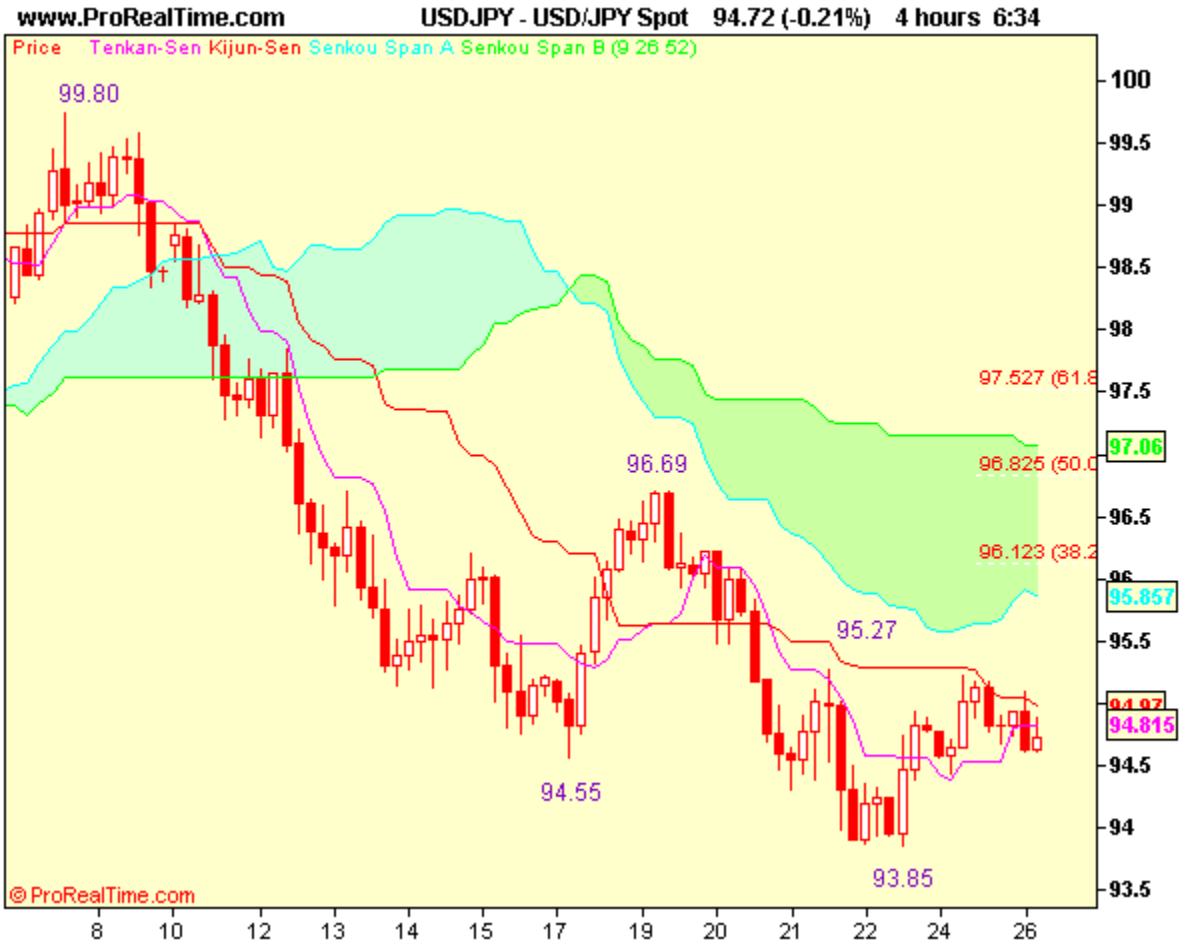
USD/JPY - 94.76

Most recent candlesticks pattern: N/A

Trend: Down

Tenkan-Sen level : 94.54
Kijun-Sen level : 95.26
Ichimoku cloud top : 95.60
Ichimoku cloud bottom : 97.15

Our trading strategy is: Hold long entered at 94.10, Target : 95.00, Stop-loss : 94.25



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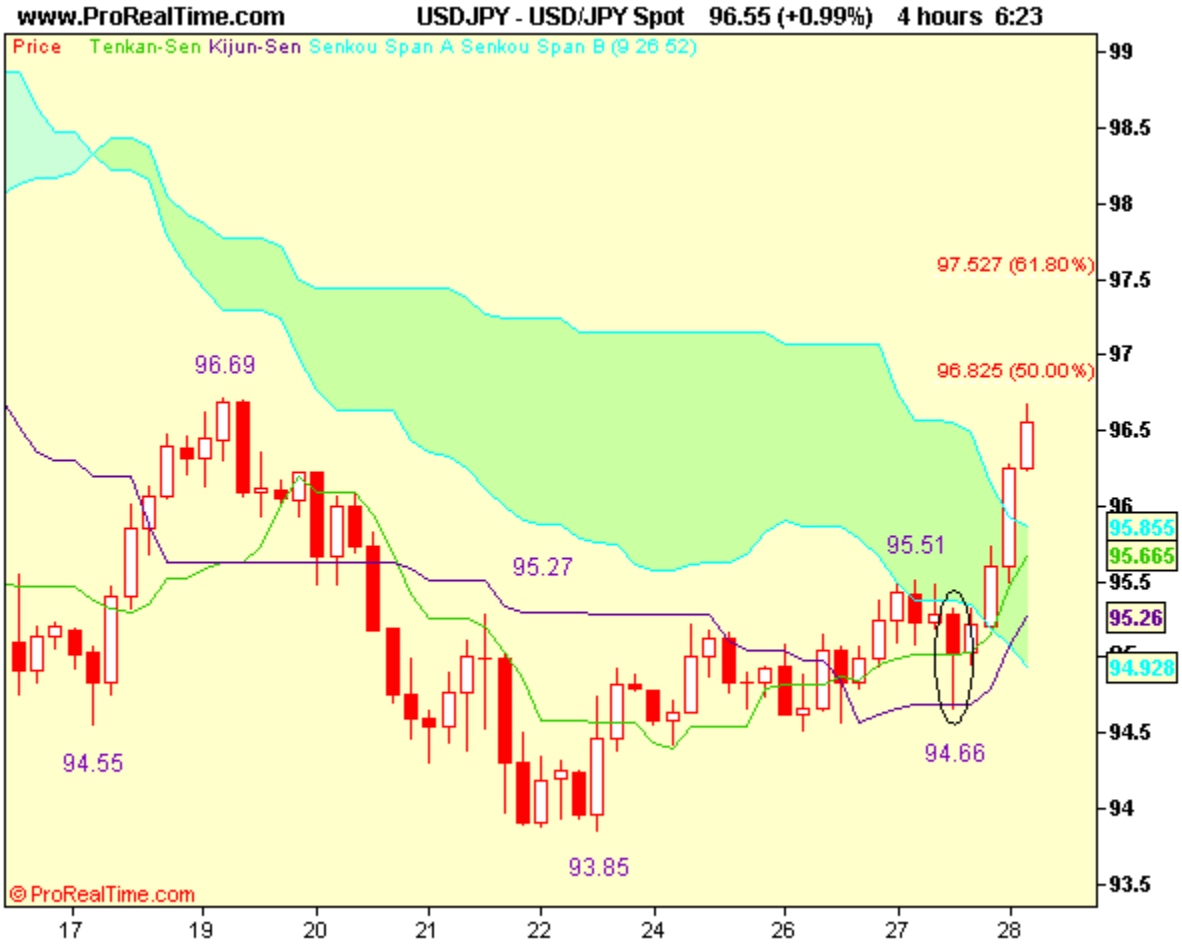
The greenback hit our upside target at 95.00 and met indicated resistance right at the level of Kijun-Sen. With both the Tenkan-Sen and Kijun-Sen turned horizontal, further sideways consolidation should unfold with upside bias for correction of the entire fall from 99.80 towards the indicated retracement levels and 38.2% at 96.12 should be the next upside target, then chart resistance at 96.69.



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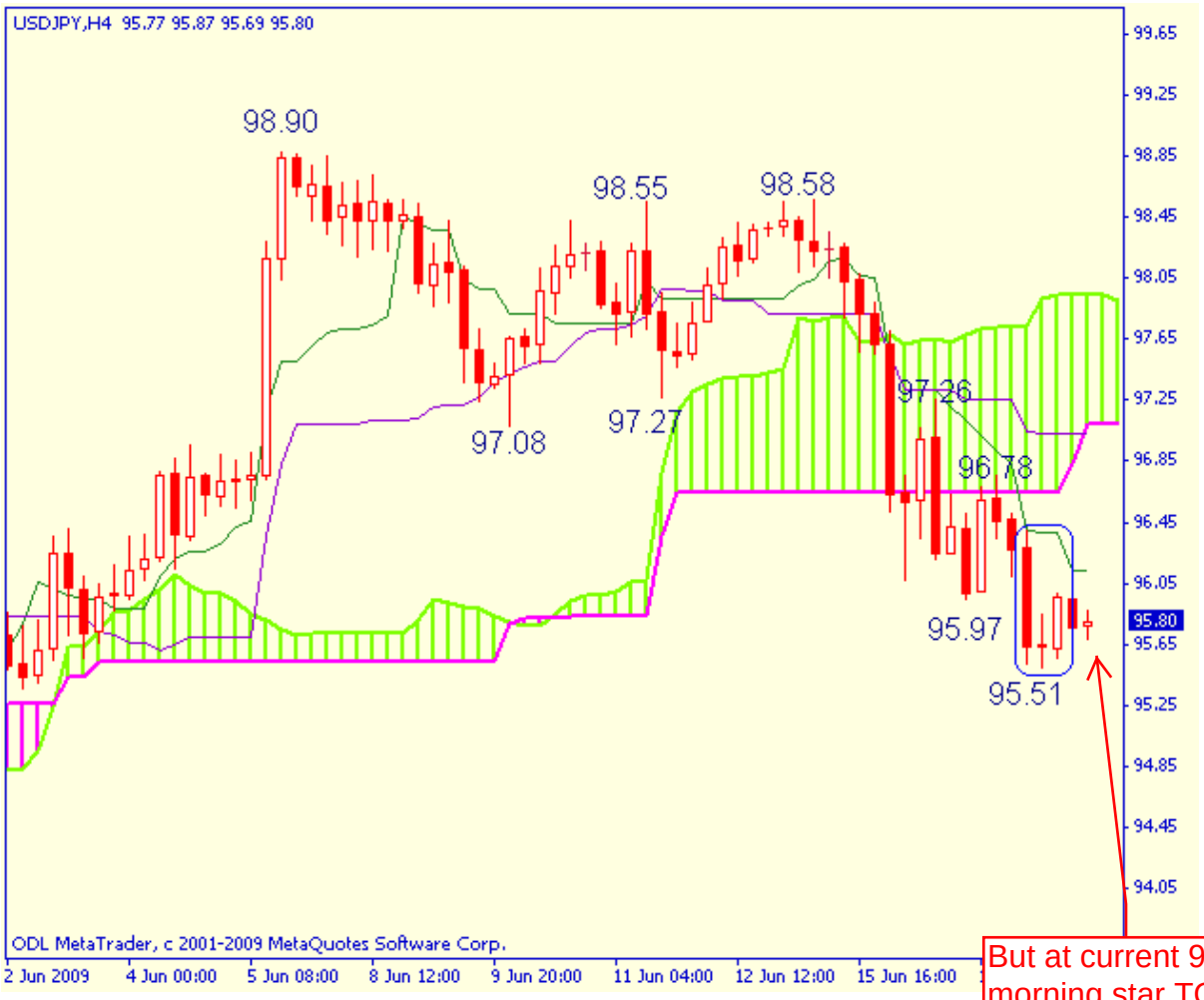
On 18 June 2009, in USD/JPY we have the following chart:



Although the greenback dropped to 95.51 after breaking below the Ich bottom, as a ' Morning star ' candlestick pattern was formed, suggesting a possible low formation. We reacted on this near term bullish reversal pattern and gave a recommendation to buy at market level. The horizontal moving Kijun-Sen also suggested it was more likely to see consolidation instead of further selloff.

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Trade Idea: USD/JPY - Buy At Current Level

Candlesticks Trades | Written by ActionForex.com | Jun 18 09 06:54 GMT |

Trade Idea: USD/JPY - Buy At Current Level

USD/JPY - 95.75

Most recent candlesticks pattern: N/A

Trend : Near term down

Tenkan-Sen level : 96.13
Kijun-Sen level : 97.03
Ichimoku cloud top : 97.94
Ichimoku cloud bottom : 97.09

Our strategy : **Buy at current level, Target: 96.70, Stop: 95.25**

Despite falling to 95.51 yesterday (as we indicated in our yesterday's update of such downside risk), the greenback found some support from there and has rebounded, suggesting a possible 'morning star' candlestick reversal pattern was formed at the low of 95.51 yesterday and while both Tenkan-Sen and Kijun-Sen are still trending lower (actually Kijun-Sen has started turning sideways), it is quite possible to see the pair to rebound back to Tenkan Sen (now at 96.13), then towards the Kijun-Sen (now at 97.03), however, dollar should stay well below the Ichimoku cloud area.

In view of the above analysis, we choose to take a relatively high risk strategy to buy dlr/yen at current market level for such a rebound with stop placing below 95.33 support. In the event price drops below this level, then recent decline from 98.90 may extend to 95.00 (where a option barrier is located), however, further sharp fall below there is not expected and chart support at 94.44 should continue to hold.

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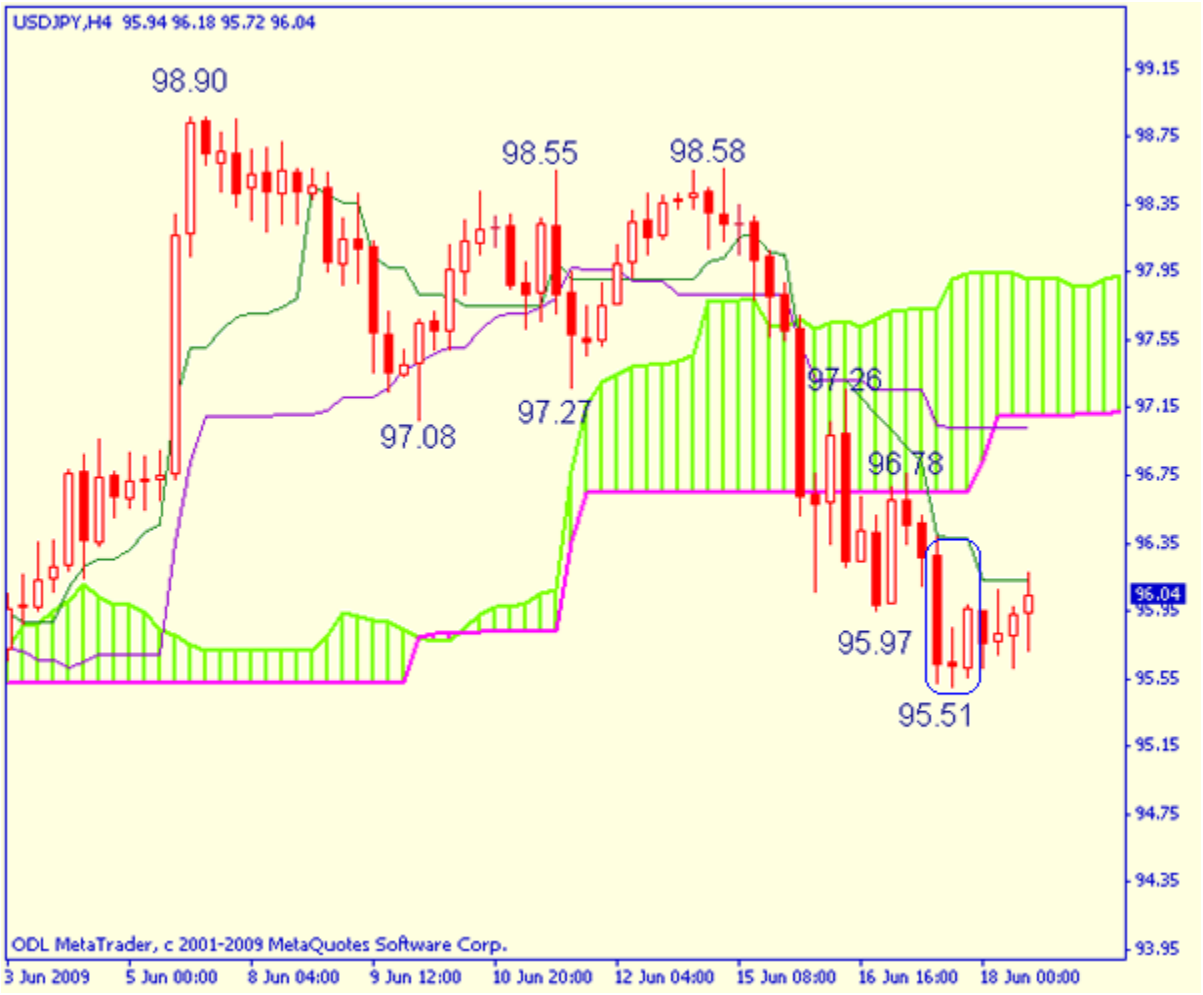

Price continued to trade sideways as the horizontal moving Kijun-Sen suggested, further consolidation should unfold and we kept our long position entered at 95.57 and with stop raised to just below support at 95.51 in anticipation of recovery towards minor resistance at 96.78. However, only a sustain break above the Ichimoku cloud bottom and the Kijun-Sen would signal an actual trend reversal.

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Trade Idea: USD/JPY - Hold Long Entered at 95.75, Stop Raised

Candlesticks Trades | Written by ActionForex.com | Jun 18 09 14:20 GMT |

Trade Idea: USD/JPY - Hold Long Entered at 95.75, Stop Raised

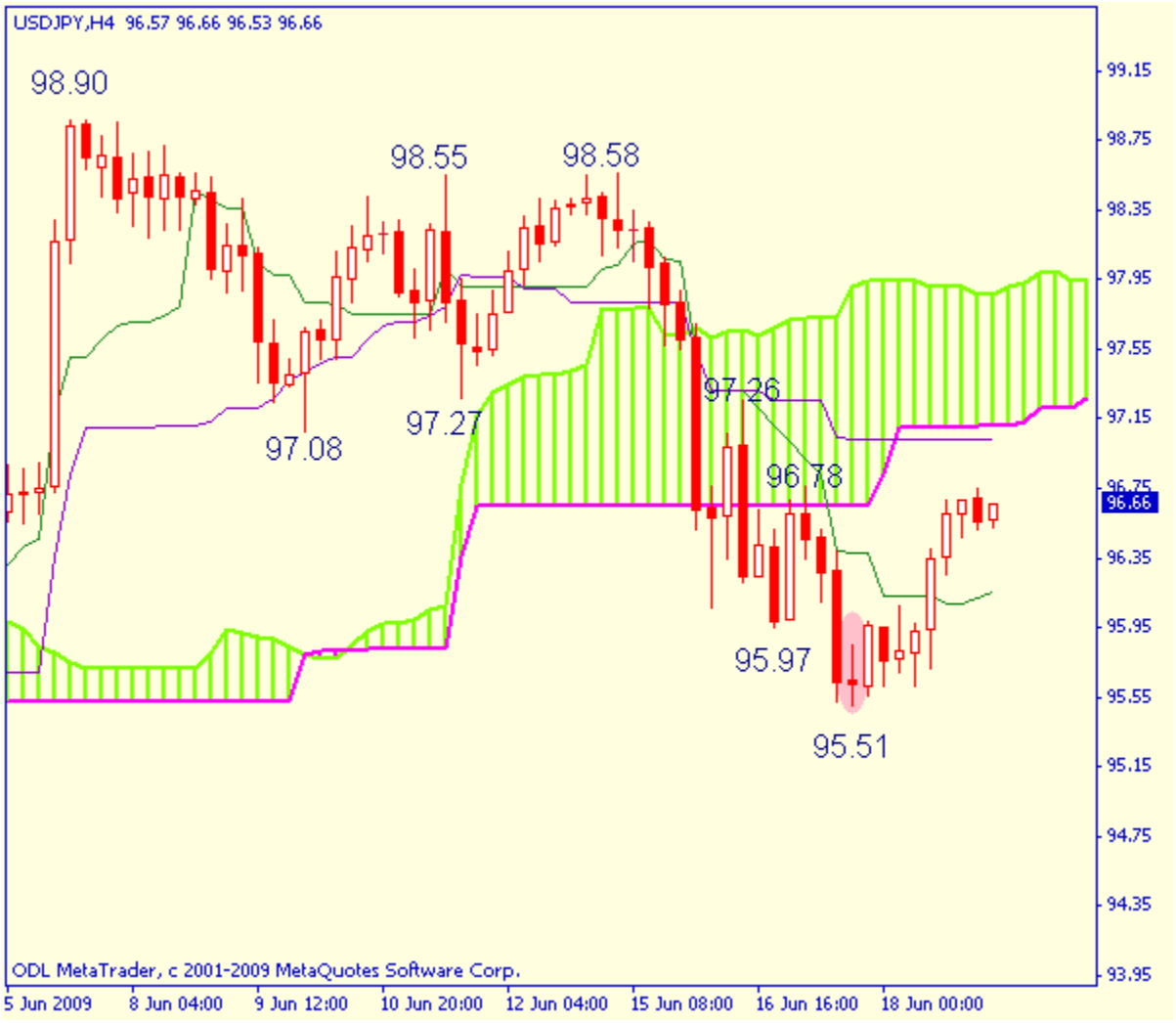
USD/JPY - 95.89

Most recent candlesticks pattern: N/A
Trend : Near term down

Tenkan-Sen level : 96.13
Kijun-Sen level : 97.03
Ichimoku cloud top : 97.91
Ichimoku cloud bottom : 97.09

Original Strategy : Bought at 95.75, Target: 96.70, stop: 95.25

New strategy : Hold long entered at 95.75, Target: 96.70, Stop 95.50



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Price easily met our upside target at 96.70 and was heading to the Kijun-Sen and the Ichimoku cloud top, however, heavy selling pressure was expected to emerge around this area.

Dollar did run into offers right at the Ichimoku cloud bottom and then quickly retreated from 97.17, a 'Shooting star' candlestick pattern was formed there which suggested a possible top formation and we turned short on the greenback thereafter, expecting price to turn back south again from there.

Trade Idea: USD/JPY - Sell at 97.00

Candlesticks Trades | Written by ActionForex.com | Jun 19 09 15:12 GMT |

Trade Idea: USD/JPY - Sell at 97.00

USD/JPY - 96.70

Most recent candlesticks pattern: Morning star
Trend : Sideways

Tenkan-Sen level : 96.39
Kijun-Sen level : 96.92
Ichimoku cloud top : 97.99
Ichimoku cloud bottom : 97.21

Original Strategy: Buy at 96.00, Target: 97.00, Stop: 95.50

New strategy : Sell at 97.00, Target: 96.20, Stop: 97.50

Dollar continued to move higher today as we expected in our previous update, however, we were unable to re-enter long as the pullback was too shallow, price did test the Ichimoku cloud bottom but then retreated from 97.17, leaving a shooting star on the 4 hour chart, suggesting consolidation below the Ichimoku cloud area would take place and mild downside bias is seen for retreat to 96.20, however, strong support at 95.51 should remain intact and the greenback is likely to stage another rebound early next week.

In view of this near term downside bias, we are turning short for such a pullback but one must book profit when price approaches 96.00 as indicated above, support at 95.51 (where decent buying interest is reported) should put a floor there.

If price keeps holding above the Tenkan-Sen (now at 96.39) and rises above 97.50, then gain toward the Ichimoku cloud top (currently locating at 97.99) would follow, however, price should falter well below resistance at 98.58.

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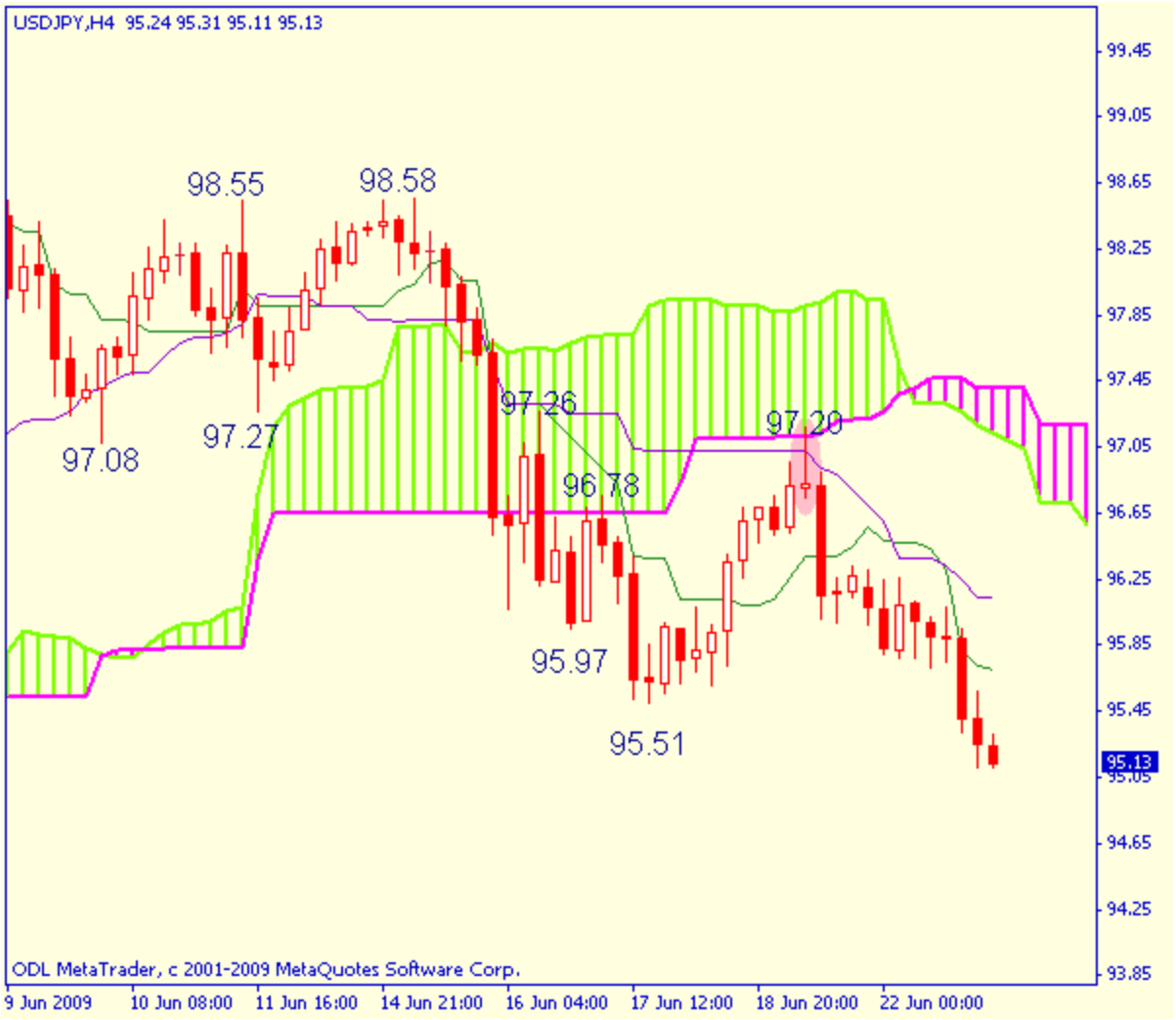

Although we were unable to enter short, the greenback did resume early decline later on and fell below previous support at 95.51.

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On 22 June 2009, in GBP/USD we have the following chart:

Trade Idea: GBP/USD - Sell At 1.6480

Candlesticks Trades | Written by ActionForex.com | Jun 22 09 07:40 GMT |

Trade Idea: GBP/USD - Sell At 1.6480

GBP/USD - 1.6430

Most recent candlesticks pattern : N/A

Trend : Sideways

Tenkan-Sen level : 1.6431
Kijun-Sen level : 1.6371
Ichimoku cloud top : 1.6371
Ichimoku cloud bottom : 1.6209

Our trading strategy: **Sell at 1.6480, Target: 1.6350, Stop: 1.6535**

Although the British pound rallied to as high as 1.6562 last Friday, price still faltered below the trend-line (by joining 1.6664 and 1.6622 resistance) and then retreated, suggesting further consolidation would take place and mild downside bias is seen for fall towards 1.6330, being 61.0% Fibonacci retracement of 1.6107 to 1.6562, however, the low of last week at 1.6107 (also just below current level of the Ichimoku cloud bottom at 1.6209) should remain intact and then choppy movements shall continue for rest of the day.

Therefore, whilst we are recommending to sell sterling on recovery, one should not get overly bearish and take profit on such a retreat. Above 1.6530/35 would risk another test of 1.6562 but only a break of 1.6622 resistance (where an 'evening star' candlestick pattern was formed) would indicate an upside break of recent broad range has indeed taken place, then upmove would resume for retest of 1.6664.

In the event price drops below 1.6187 support, this would confirm the rise from1.5803 has ended at 1.6622, then stronger correction to 1.6116 (61.8% Fibonacci retracement of 1.5803 to 1.6622).

As cable retreated after faltering below trendline resistance and broke below the Tenkan-Sen, suggesting price was not ready to start a trending move yet and further consolidation should take place, so we gave a sell recommendation as:

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Trade Idea: GBP/USD - Sell At 1.6480

Candlesticks Trades | Written by ActionForex.com | Jun 22 09 07:40 GMT |

Trade Idea: GBP/USD - Sell At 1.6480

GBP/USD - 1.6430

Most recent candlesticks pattern : N/A

Trend : Sideways

Tenkan-Sen level : 1.6431
Kijun-Sen level : 1.6371
Ichimoku cloud top : 1.6371
Ichimoku cloud bottom : 1.6209

Our trading strategy: **Sell at 1.6480, Target: 1.6350, Stop: 1.6535**

Although the British pound rallied to as high as 1.6562 last Friday, price still faltered below the trend-line (by joining 1.6664 and 1.6622 resistance) and then retreated, suggesting further consolidation would take place and mild downside bias is seen for fall towards 1.6330, being 61.0% Fibonacci retracement of 1.6107 to 1.6562, however, the low of last week at 1.6107 (also just below current level of the Ichimoku cloud bottom at 1.6209) should remain intact and then choppy movements shall continue for rest of the day.

Therefore, whilst we are recommending to sell sterling on recovery, one should not get overly bearish and take profit on such a retreat. Above 1.6530/35 would risk another test of 1.6562 but only a break of 1.6622 resistance (where an 'evening star' candlestick pattern was formed) would indicate an upside break of recent broad range has indeed taken place, then upmove would resume for retest of 1.6664.

In the event price drops below 1.6187 support, this would confirm the rise from1.5803 has ended at 1.6622, then stronger correction to 1.6116 (61.8% Fibonacci retracement of 1.5803 to 1.6622).

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Our sell entry at 1.6480 was filled and cable did slip again after brief rebound, however, as sterling was testing the support at Kijun-Sen and the Ichimoku cloud top, we took a prudent step to exit our short position (with over 100 points profit) as it was necessary to see a break below these lines to confirm the rebound from 1.6187 is over and bring further fall towards 1.6200.

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Trade Idea: GBP/USD - Take 110 Points Profit on Short Entered at 1.6480

Candlesticks Trades | Written by ActionForex.com | Jun 22 09 15:30 GMT |

Trade Idea: GBP/USD - Take 110 Points Profit on Short Entered at 1.6480

Most recent candlesticks pattern : N/A
Trend : Sideways
Tenkan-Sen level : 1.6444
Kijun-Sen level : 1.6371
Ichimoku cloud top : 1.6383
Ichimoku cloud bottom : 1.6209

Our trading strategy: Sold at 1.6480, Target: 1.6350, Stop: 1.6535

New Strategy: Take profit on short entered at 1.6480 with over 110 points profit.

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The British pound then dropped to 1.6209 but later rebounded after finding decent demand right at the flat ground Ichimoku cloud bottom, suggesting further consolidation would take place within the established trading range and we turned long on pullback by giving recommendation as below:

Trade Idea: GBP/USD - Buy at 1.6275

Candlesticks Trades | Written by ActionForex.com | Jun 23 09 13:53 GMT |

Trade Idea: GBP/USD - Buy at 1.6275

GBP/USD - 1.6344

Most recent candlesticks pattern: N/A
Trend : Sideways

Tenkan-Sen level : 1.6360
Kijun-Sen level : 1.6371
Ichimoku cloud top : 1.6385
Ichimoku cloud bottom : 1.6209

Our strategy is: Buy at 1.6275, Target: 1.6400, Stop: 1.6220

Despite falling to 1.6209 earlier today, the British pound has rebounded in tandem with euro on active buying by U.K. clearer, this move suggests choppy movements within 1.6187-1.6622 would continue for another 1-2 days and the white candle with a relatively long lower shadow signals intra-day low has been formed there and bullish bias is for further gain towards 1.6427 (61.8% Fibonacci retracement of 1.6562 to 1.6209), however, price is likely to falter below 1.6510/20.

In view of this, we are looking to buy cable on pullback with stop at 1.6220 but only below 1.6187 support would confirm a downside break of 1.6187-1.6622 range has taken place, then correction of the rise from 1.5803 would take sterling down to 1.6116 (61.8% Fibonacci retracement of 1.5803 to 1.6622).

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Cable then rallied in line with our expectation and our upside target at 1.6400 was met quickly (with 125 points profit), sterling then headed towards trendline resistance. However, only a rise above resistance at 1.6622, where an 'evening star' candlestick pattern was formed, would confirm upside break.

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Trade Idea: GBP/USD -Target Met And Buy Again At 1.6430

Candlesticks Trades | Written by ActionForex.com | Jun 24 09 08:10 GMT |

Trade Idea: GBP/USD -Target Met And Buy Again At 1.6430

GBP/USD - 1.6541

Most recent candlesticks pattern : N/A

Trend : Sideways

Tenkan-Sen level : 1.6368
Kijun-Sen level : 1.6371
Ichimoku cloud top : 1.6370
Ichimoku cloud bottom : 1.6209

Our original strategy was : Bought at 1.6275, met target: at 1.6400 with 125 points profit

New strategy is : Target met and buy again at 1.6430, Target: 1.6600, Stop: 1.6370

The British pound found good buying interest right below our indicated long entry level at 1.6275 and rallied from there together with euro on dollar's decline across the board and easily met our upside target at 1.6400 (made 125 points profit). As price is still trading with a firm bias, gain to 1.6562 is likely, then towards key resistance at 1.6622, however above there is necessary to confirm an upside break of recent trading band has taken place for a retest of 1.6664 top.

Although it is quite tempting to turn short near the top of recent trading range with stops placing above 1.6622, as this is a really high risk trade, we prefer to wait for such a retreat to buy cable again as price should stay well above Tenkan-Sen, Kijun-Sen and Ichimoku cloud top (currently locating 1.6368-71). In case sterling drops below this level, then further choppy consolidation within 1.6187-1.6622 would take place and fall to 1.6310/20 cannot be ruled out.

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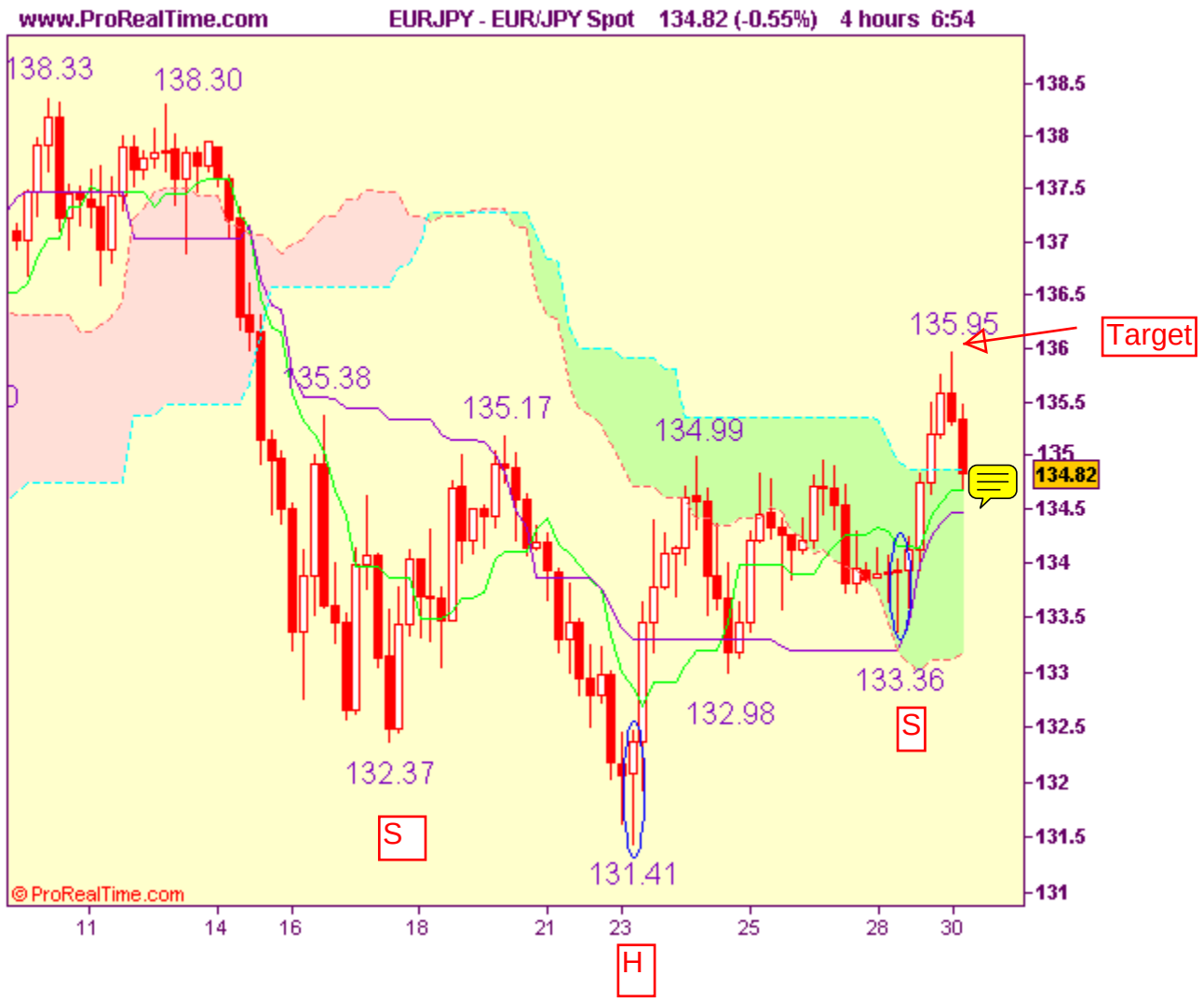
On 30 June, in EUR/JPY we have the following chart:



Despite falling to 131.41, the single currency quickly rebounded from there and a 'hammer' candlestick bullish reversal pattern was formed, the subsequent rally gave confirmation to this pattern, i.e. low has been formed at 131.41, however, price faltered below the Ichimoku cloud top and turned sideways for few days in reaction to the horizontal moving Kijun-Sen. Another 'hammer' like (with small real body and long lower shadow) candlestick pattern was formed at 133.36 and euro headed north again but this time the currency pair finally broke above the upper Kumo. Although euro then retreated from 135.95, this breach of the Ichimoku cloud confirmed a reversal was taking place and the Kijun-Sen should contain pullback, bring another rally.

Therefore, we gave a buy recommendation with entry level being set just above the Kijun-Sen. From a traditional chart pattern point of view, this could also be interpreted as an inverse head & shoulder reversal pattern.

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Trade Idea: EUR/JPY - Buy At 134.50

Candlesticks Trades | Written by ActionForex.com | Jun 30 09 06:58 GMT |

Trade Idea: EUR/JPY - Buy At 134.50

EUR/JPY - 134.72

Most recent candlesticks pattern : Hammer

Trend : Sideways

Tenkan-Sen level : 134.67
Kijun-Sen level : 134.47
Ichimoku cloud top : 134.86
Ichimoku cloud bottom : 133.18

Original Strategy : Buy at 133.60, Target: 134.80, Stop: 133.20

New trading strategy : Buy at 134.50, Target: 135.90, Stop: 133.95

The single currency finally broke through indicated resistance area at 135.17-135.38 (approx. the neckline resistance and this is also 50% Fibonacci retracement of 139.26 to 131.41 at 135.33), confirming the indicated inverse head and shoulder formation and the rise from 131.41 should extend towards 136.90/00. However, it is necessary to see a break above the resistance at 138.30/33 to confirm the entire correction from 139.26 has ended at 131.41.

As price has already eased from 135.95, downside should be limited to the Kijun-Sen (now at 134.47) and bring rally to abovementioned upside targets. Only below 133.95/00 would dampen this bullish view and risk stronger pullback to 133.50/60 and even support at 133.36 but only break of 132.98 would turn outlook bearish

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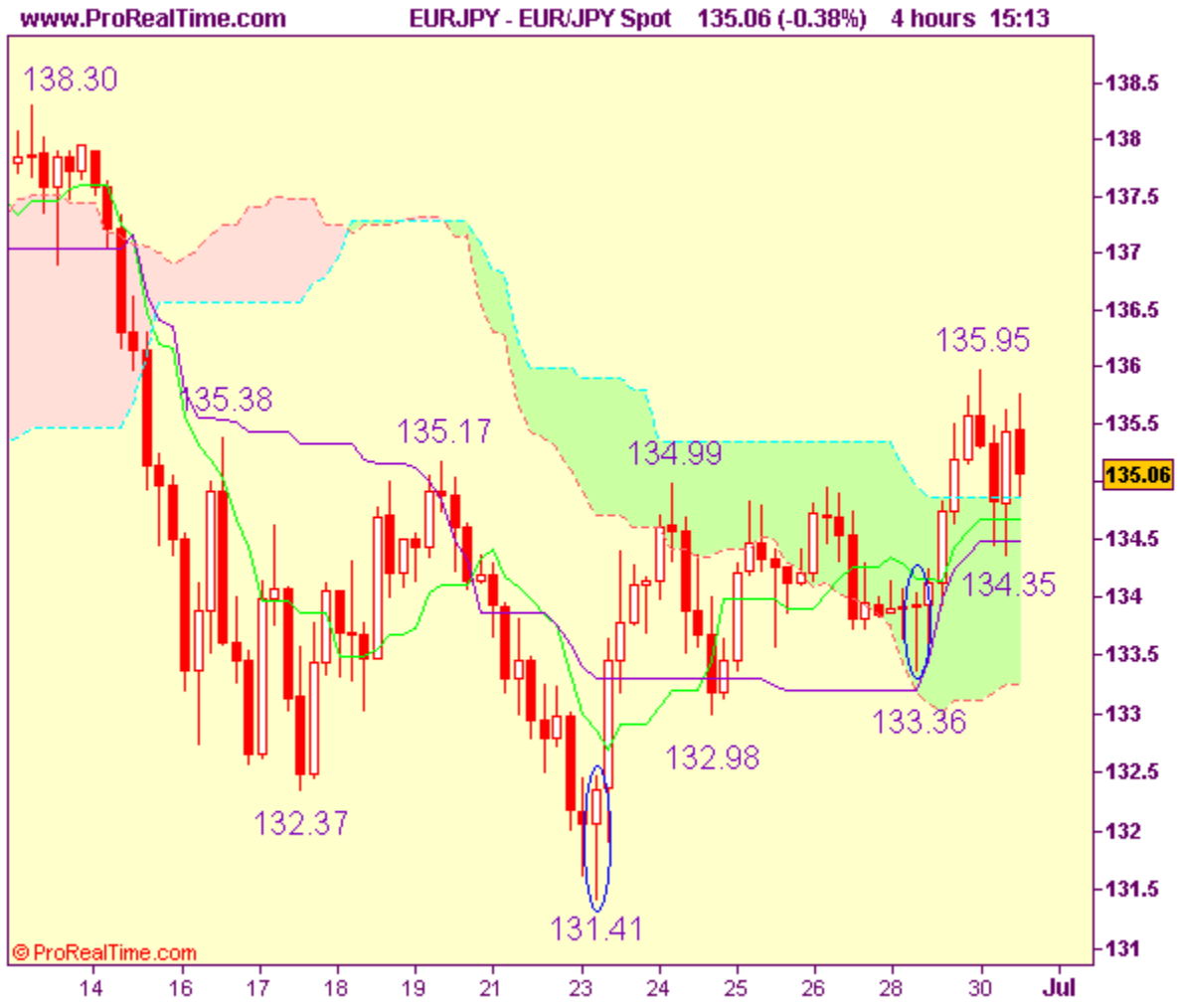

Euro did find renewed buying interest around the Kijun-Sen and rebounded again from 134.35. So we kept our long position entered at 134.50 for another rise to 135.95 with stop raised to the said support level.

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Trade Idea: EUR/JPY - Hold Long Entered at 134.50

Candlesticks Trades | Written by ActionForex.com | Jun 30 09 15:37 GMT |

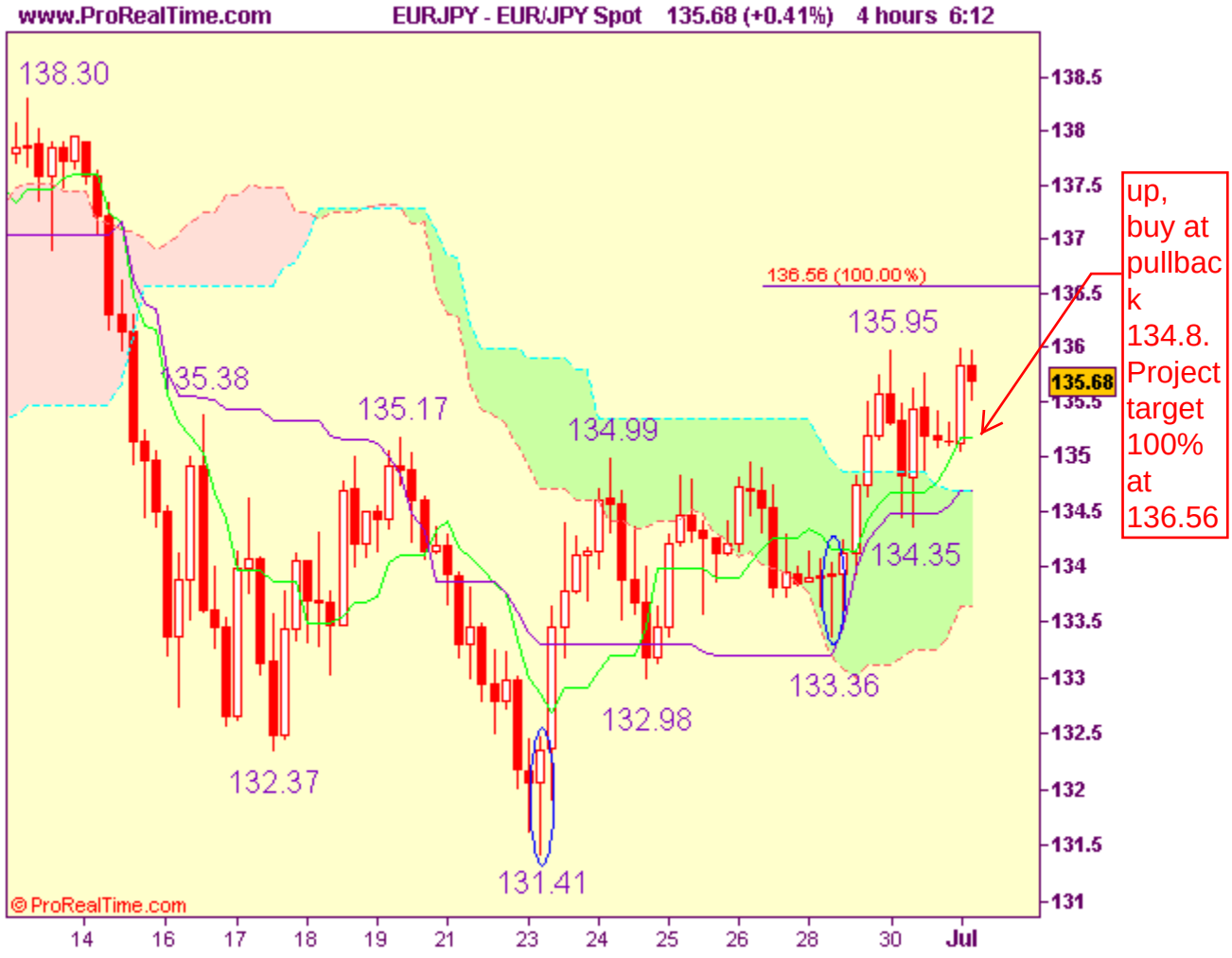
Trade Idea: EUR/JPY - Hold Long Entered at 134.50

EUR/JPY - 135.06

Most recent candlesticks pattern : Hammer
Trend : Sideways
Tenkan-Sen level : 134.67
Kijun-Sen level : 134.47
Ichimoku cloud top : 134.86
Ichimoku cloud bottom : 133.25

Original Strategy : **Bought at 134.50, Target: 135.90, Stop: 133.95**

New trading strategy : Hold long entered at 134.50, Target: 135.90, Stop: 134.35



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Price then moved higher in line with our forecast, met our 135.90 objective and euro looked set to extend to next target at 136.56 (100% projection of 131.41-134.99 measuring from 132.98), so we gave another buy recommendation.

Trade Idea: EUR/JPY - Made 140 Points Profit And Buy Again At 134.80

Candlesticks Trades | Written by ActionForex.com | Jul 01 09 06:25 GMT |

Trade Idea: EUR/JPY - Made 140 Points Profit And Buy Again At 134.80

EUR/JPY - 135.70

Most recent candlesticks pattern : Hammer

Trend : Up

Tenkan-Sen level : 135.17
Kijun-Sen level : 134.67
Ichimoku cloud top : 134.68
Ichimoku cloud bottom : 133.64

Original Strategy : Bought at 134.50 met target: 135.90 with 140 points profit

New trading strategy : Made 140 points profit and buy again at 134.80, Target: 136.20, Stop: 134.25

The single currency only made brief pullback and renewed buying quickly emerged at the Tenkan-Sen, euro then surged to 136.90 before easing.

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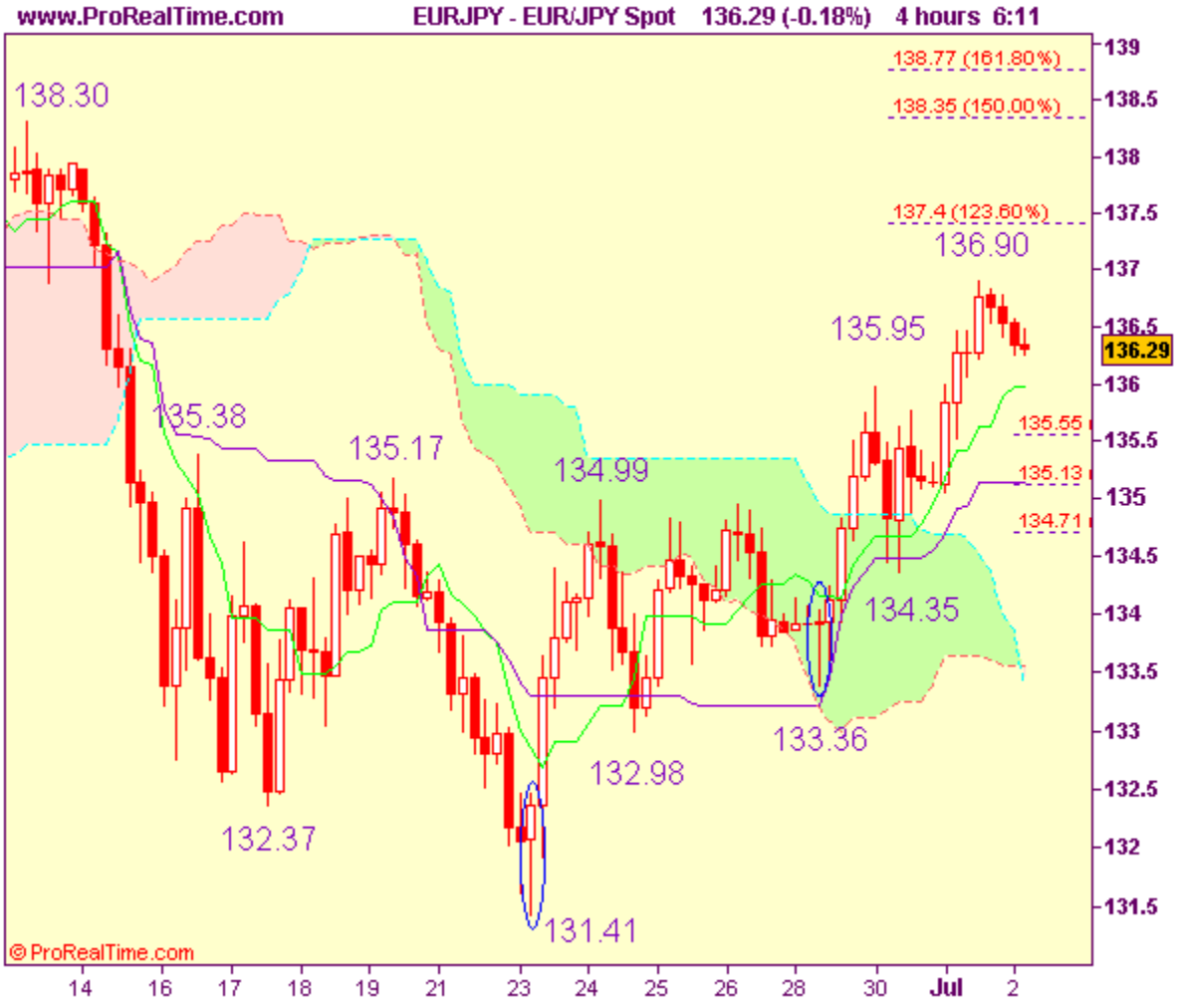

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On 07 July 2009, in EUR/USD we have the following chart:

The single currency rebounded after falling to 1.3876 and although euro then retreated after meeting resistance near the Ichimoku cloud bottom, as the correction from 1.3876 had not reached the minimum 38.2% Fibonacci retracement of 1.4202 to 1.3876 at 1.4001, unless price could break below the support at 1.3876, another corrective bounce cannot be ruled out but upside should be limited to the Ichimoku cloud top and Kijun-Sen which was exactly the 50% retracement level at 1.4039 and renewed selling interest should emerge there, bring selloff later. As the sideways moving Kijun-Sen also suggested further consolidation would take place, therefore, we gave a sell on recovery recommendation with entry just below the Kijun-Sen in anticipation of a resumption of the decline from 1.4202.

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Trade Idea: EUR/USD - Sell At 1.4035

Candlesticks Trades | Written by ActionForex.com | Jul 07 09 07:11 GMT |

Trade Idea: EUR/USD - Sell At 1.4035

EUR/USD - 1.3935

Most recent candlesticks pattern : N/A

Trend : Sideways

Tenkan-Sen level : 1.3938
Kijun-Sen level : 1.4039
Ichimoku cloud top : 1.4049
Ichimoku cloud bottom : 1.3989

Original strategy : Buy at 1.3855, Target: 1.3980, Stop: 1.3800

New strategy : Sell at 1.4035, Target: 1.3880, Stop: 1.4085

Although the single currency retreated after meeting renewed selling at 1.3995, only a break of yesterday's low at 1.3876 would confirm the decline from 1.4202 top has resumed for further fall to 1.3826, however, it looks like 1.3794 (61.8% projection of 1.4202 to 1.3876 measuring from 1.3995) would hold. If price stays above said support level, then further consolidation would take place and another rebound to 1.4001 (38.2% Fibonacci retracement of 1.4202-1.3876) cannot be ruled out but 1.4039-49 (50% Fibonacci retracement and current level of Ichimoku cloud top) should cap upside and bring another selloff.

In view of the above analysis, we prefer to sell euro on recovery. If price rises above 1.4078 (61.8% Fibonacci retracement of 1.4202-1.3876), this would risk stronger rebound but as top has been formed at 1.4202, 1.4140/50 would limit upside and the single currency shall head south again from there.

The single currency did hold above the support at 1.3876 and staged another corrective rebound to 1.4051, however, euro was being capped right at the Ichimoku cloud top and started to turn back south from there.

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Therefore, we continued to hold on to our short position entered at 1.4035 for retest of 1.3876 support with stop lowered to just above the resistance at 1.4051 as this Ichimoku cloud top should continue to put a lid on the currency pair, bring such a resumption of decline later.

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Trade Idea: EUR/USD - Hold Short Entered at 1.4035, Stop Lowered

Candlesticks Trades | Written by ActionForex.com | Jul 07 09 14:39 GMT |

Trade Idea: EUR/USD - Hold Short Entered at 1.4035, Stop Lowered

EUR/USD - 1.3985

Most recent candlesticks pattern : N/A
Trend : Sideways
Tenkan-Sen level : 1.3964
Kijun-Sen level : 1.4039
Ichimoku cloud top : 1.4049
Ichimoku cloud bottom : 1.3989

Original strategy : Sold at 1.4035, Target: 1.3880, Stop: 1.4085

New strategy: Hold short entered at 1.4035, Target: 1.3905, Stop: 1.4055

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Euro did resume the decline from 1.4202 after rebounding to 1.4051, both Kijun-Sen and Kijun-Sen also started turning down again, confirming the view for further fall and the downside target at 1.3880 was met easily with 130 points profit.

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CHAPTER 6

Summary and conclusion

In this E-book, we provided an introduction to some technical analysis techniques, all these different analyzing methods can be used together and applied to the futures markets, stock markets and of course the forex markets.

We have discussed the basic technical analysis tools including: trend analysis, patterns recognition, Fibonacci retracement and projection, Candlestick chart patterns and finally Ichimoku Kinko Hyo. Finally, we used real life examples showing how to combine all these elements into one methodology of market analysis which is especially suitable for actually trading.

In our analysis, we suggested to use candlestick chart together with Ichimoku Kinko Hyo indicators and although we did not cover the use of other technical indicators and oscillators (such as Moving Average Convergence and Divergence -MACD, Relative Strength Index - RSI and Directional Movement Index - DMI etc), one should also take these indicators as reference whenever the chartist is having a view of possible top or bottom formation (e.g. a reversal candlestick patterns in formed).

As this is only the part one of our E-book, we only covered the most basic use of candlestick patterns and also the Ichimoku Kinko Hyo, more advance applications of these two analysis methods will be discussed in our next E-book.

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Recommended Trading Resources

Financial Portals

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